



2004 Annual Report

TRANSFORMATION

 Seattle City Light

4 Key Elements of City Light's Work

Producing Power



Serving Customers



Managing Money and Risk



Supporting Employees



Service Area

- Principal Substations
- Future Substations
- Long-term Cogeneration Contract
- Seattle City Limits



Energy Resources

- Owned Hydro
- Long-term Hydro Contracts
- Long-term Cogeneration Contract
- Treaty Rights from British Columbia
- Other Long-term Contracts

Klamath Falls Combustion Turbine

Message from the Superintendent



"We will keep our eyes fixed on the twin financial targets of reducing debt and increasing cash reserves."

Jorge Carrasco
Superintendent
Seattle City Light

This has been my first year as City Light Superintendent. It has been an exciting and challenging year, full of the joy that comes with living in one of America's most lovely and vibrant cities. I have spent a lot of my time getting to know our new city, the issues facing our customers, and, most importantly, the people who work at City Light. I've found that our employees have high expectations for the organization. They want to work for a top-performing utility, and they are ready to accept the challenge of getting theirs to perform at the top level. Based on surveys and countless conversations, they seek a cultural change that leads us to a more collaborative workplace, with employees empowered at all levels, focused on doing the best for their customers.

Financially, we need to create value for our shareholders: our customers and the citizens of Seattle, Shoreline, Burien, Lake Forest Park and Tukwila. I believe that one of our biggest challenges is to make sure public power stays competitive. So as we transform, we will be cost conscious and efficient. We will stay within our budget. We will spend money where it's needed, but we will not waste money. We will keep our eyes fixed on the twin financial targets of reducing debt and increasing cash reserves.

I am fortunate to be working with strong Seattle leadership. Mayor Nickels understands the utility industry and is interested in its issues. The City Council gives City Light the personal and institutional time to get our often complicated messages across. The Advisory Board offers top business and industry talent and many, many hours of their time. Together, they are aligned with a clear view of the utility's top priorities:

- Ensuring the long-term financial stability of the utility, especially considering the significant debt incurred in the past, limited cash reserves, and an increasingly volatile operating environment.
- Enhancing the reliability of service through a balanced resource portfolio, reliable transmission and distribution facilities, and better risk management processes.
- A commitment to customers.
- Preparing our workforce for the competitive environment facing our industry.
- Balancing all of the above with the need to maintain stable, affordable rates.

I'm confident that City Light's financial and cultural transformations, enhanced by effective, informed City leadership, will create a strong utility and a high-performance workplace that puts City Light in the top tier of public utilities.

Jorge Carrasco



TRANSFORMATION Overview

Seattle City Light entered the year with a steadily improving financial outlook and a new commitment to organizational improvement. Transformation was both a goal and a process for Seattle City Light in 2004.

The year began with the publication of the Seattle City Light Advisory Board's first annual report, acknowledging City Light's recovery from the West Coast energy crisis. The report recommended that the utility continue to strengthen its financial condition, improve its risk management processes, implement strategic and resource planning, and strengthen its organizational and management systems and practices to help it become a high-performance organization. Much of City Light's activities in 2004 were undertaken to keep the utility on that path.

Jorge Carrasco took the City Light helm in February. The new superintendent began working immediately on one of his and the Advisory Board's priorities: an initiative designed to transform City Light into a high-performance organization.

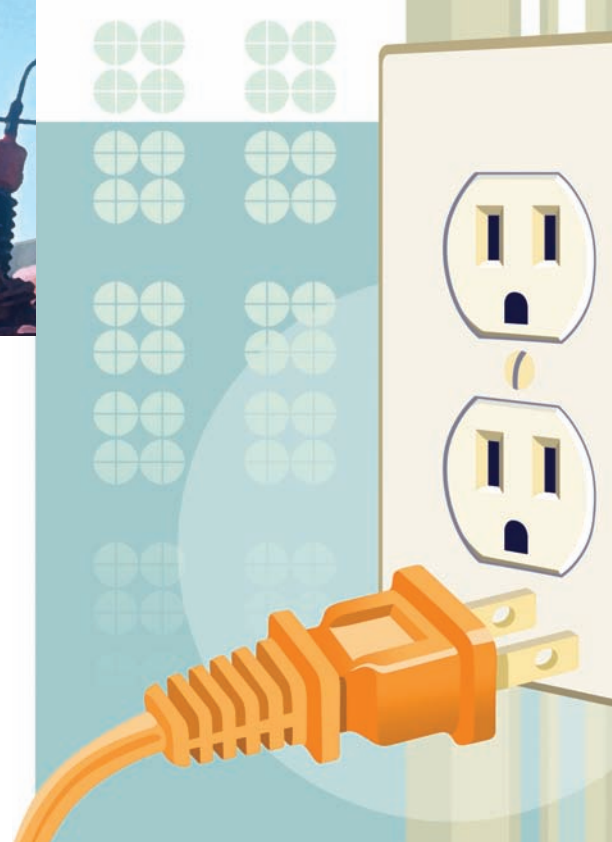
The organizational transformation began with an internal survey, completed by 74 percent of the utility's employees and designed to identify workplace issues and improvements.

In June, City Light discussed the survey results at employee-led meetings with all 42 of the utility's work groups, including those at the Skagit and Boundary hydroelectric facilities. Each work group produced a written report on the results of the discussions. Issues and strategies were further refined by employee focus groups in August.

Many issues identified in the survey were addressed quickly within individual workgroups. Cross-divisional issues became part of longer-term action plans. All City Light managers signed a commitment in late 2004 to implement the plans, and the utility began preparing for a follow-up employee survey for 2006.

With winter came the retirements of four members of City Light's executive team: Jim Ritch, Finance and Administration; Dana Backiel, Generation; Mike Sinowitz, Power Management; and Nancy Glaser, Strategic Planning/Environment & Safety.

Superintendent Carrasco took the opportunity to make significant changes in the organizational structure of City Light and to the composition of the senior leadership team. They also responded to the expectations of the mayor and Seattle City Council, the City Light Advisory Board, the results of the employee survey and the recommendations of the strategy team. All were aligned with one message - creating a high-performance organization.



The new organizational design focused more strategically on the four key elements of City Light's work:

- **Producing Power**
- **Serving Customers**
- **Managing money and risk**
- **Supporting employees**

Carrasco reduced his direct reports from nine to four. They are:

- **Power Supply & Environmental Affairs Officer** - responsible for all functions related to power generation, including power plant operations, power marketing, integrated resource planning and licensing.
- **Customer Service & Energy Delivery Officer** - responsible for managing activities related to the delivery of our product to our customers, including all power distribution, account and customer services, and the System Control Center.
- **Chief Financial Officer** - responsible for our financial affairs, risk management, strategic planning and information technology.
- **Human Resources Officer** - responsible for all functions supporting employees, including Safety and the Apprenticeship Program.



He also created an Office of the Superintendent, which will include Public Affairs and Communications, External Affairs, a Chief of Staff to handle City Council and Advisory Board coordination, and the daily logistics of the office such as scheduling and correspondence.

In November, Carrasco brought on Bill Gaines, an experienced resource expert from Puget Sound Energy, to handle the power marketing function. In December, he named John Prescott, former Vice President for Power Supply at Idaho Power, as City Light's new Power Supply Officer. Searches were under way for candidates to fill the other officer positions.

Phase II of City Light's transformation - structural reorganization at the division level - was scheduled to begin in January 2005.

Meanwhile, as organizational change proceeded, City Light continued steadily in 2004 toward the milestones that would trigger strong, new financial policies in 2005.



Financial Highlights

Net Income Realized

At the end of 1999, Seattle City Light reported net income of \$7.7 million for the year. Then along came the Western energy crisis - marked by market manipulation and drought - and four straight years of net losses.

City Light spent more than \$500 million on wholesale market power in 2000-2001. The rates in place at the time assumed \$20 million for that energy. The utility relied on a combination of rate increases and short-term borrowing to cover the cost. In 2001, it issued two-year revenue anticipation notes (\$182.2 million) and borrowed \$100 million from the City of Seattle's consolidated cash pool. City Light replaced its cash pool loan in 2002 with lower-interest, one-year revenue anticipation notes (\$125 million).

Since then, City Light has passed several milestones on the road to recovery. The utility had retired all short-term notes by November 2003 and ended the year owing \$70 million to the city's cash pool, which it continued to use for cash-flow management. That debt was paid off in May 2004. At the end of 2004, City Light recorded net income of \$13.8 million, its first net income since 1999.

Energy Revenue

City Light achieved net income despite having less surplus energy to sell on the wholesale market in 2004. Because of low precipitation and stream flows in the Northwest, surplus energy was 35.7 percent below the forecast, which had assumed normal water. Higher-than-expected market prices partially offset the effect of low water. Net wholesale revenue of \$113.6 million was 21.2

percent below the adopted forecast. Retail revenue was 0.9 percent above the adopted forecast.

Long-term Borrowing/Credit Rating

City Light issued new long-term debt in 2004 and refinanced some outstanding debt to reduce long-term debt cost.

In December, the utility sold \$284.855 million of bonds with a true interest cost of 4.23 percent. City Light will use \$60 million of the issue to finance capital projects and conservation programs. The rest was used to refinance certain bonds issued in 1995, 1996 and 1999, achieving a \$14.7 million savings in net present value for ratepayers.

Both Moody's Investor Services and Standard & Poor's (S&P) upgraded the financial outlook for City Light and affirmed their strong ratings for the utility.

Standard & Poor's affirmed its 'A' rating and raised its outlook for City Light two notches, from negative to positive. Moody's affirmed its 'Aa3' credit rating and hiked the utility's outlook from negative to stable.

S&P said its rating "reflects Seattle City Light's fundamental credit strengths, improved financial position, and full recovery of deferred power costs incurred in 2001." The agency noted that in 2004, City Light "met its objective of retiring its short-term debt and rebuilding cash reserves to adequate levels ..."

Moody's said that the change from a negative to a stable credit outlook "reflects that Seattle City Light has emerged from a period of financial stress,

"Its rating reflects Seattle City Light's fundamental credit strengths, improved financial position, and full recovery of deferred power costs incurred in 2001."

Standard & Poor's



demonstrating in the process its financial resiliency.” Moody’s credited City Light for adopting and adhering to a “decisive” financial plan for recovery from the energy crisis of 2000-2001. In 2004, “all short-term debt had been repaid and operating reserves were built back up to better protect against a certain level of risk exposure.”

“The credit outlook has been changed to stable from negative given the progress the utility has achieved in restoring its financial health,” Moody’s said.

Streetlight Refunds

In December 1999, the City of Seattle decided to have City Light pay the cost of maintaining streetlights, and the utility began billing customers for that service. In November 2003, the Washington State Supreme Court ruled that arrangement illegal under the state’s constitution. Funds paid by municipal utility customers for utility services must remain separate from funds paid by taxpayers for general government activities, the court ruled. The court said that streetlight maintenance should be a cost of general government rather than a utility expense. It ordered the City to reimburse City Light for the \$24 million the utility paid for streetlights between 1999 and 2003.

The issue went back to King County Superior Court to resolve details. In May 2004, the judge in the case found that monies repaid to City Light by the City should be refunded to customers. By the fall, City Light had developed and implemented a process whereby current and past residential customers of the utility could apply for streetlight refunds. City Light estimated that refunds would average about \$30-60 per customer.

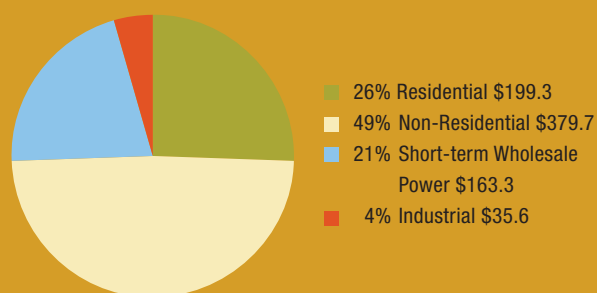
2004 Highlights

Financial (in millions)	2004	2003	% Change
Total operating revenues	\$ 777.9	\$ 739.0	5.3
Total operating expenses	710.0	700.1	1.4
Net operating income	67.9	38.9	74.6
Investment income	2.5	3.8	(34.2)
Interest expense, net	(76.3)	(77.0)	(0.9)
Other income, net	1.8	0.1	100+
Fees and grants	17.9	26.1	(31.4)
Net income (loss)	\$ 13.8	\$ (8.1)	(100+)
Debt service coverage, prior lien bonds	1.58	1.56	1.3
Debt service coverage, prior lien bonds ^A	2.39	2.50	(4.4)

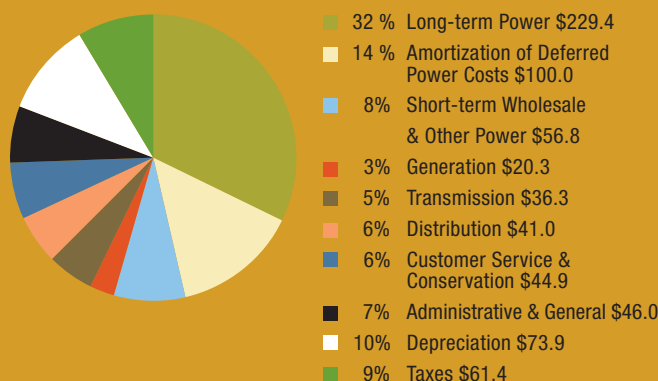
^A Debt Service Coverage computation, without the effect of \$100.0 million annual amortization of \$300.0 million power costs deferred in 2001, for informational purposes only.

Energy	2004	2003	% Change
Total generation	6,019,707 MWh	6,098,753 MWh	(1.3)
Firm energy load	9,560,928 MWh	9,530,016 MWh	0.3
Peak load (highest single hourly use)	1,799 MW (January 5, 2004)	1,646 MW (December 30, 2003)	9.3
Average number of residential customers	333,560	330,979	0.8
Annual average residential energy consumption (includes estimated unbilled revenue allocation)	8,852 kWh	8,921 kWh	(0.8)

2004 Operating Revenues (in millions = \$777.9)



2004 Operating Expenses (in millions = \$710.0)



City Light's contract with Stateline provides 175 megawatts of wind generating capacity, producing 54 average megawatts per year, or enough energy for about 53,000 Seattle homes.



Resources

City Light's power portfolio continued to prove its value in 2004, meeting energy demand within the service territory and producing a surplus for the wholesale market, even under poor water conditions. Disregarding power costs that were deferred from 2001, the utility's net power cost delivered was \$19.27 per megawatt-hour in 2004, down from \$20.51 in 2003.

City Light's dams on the Skagit and Pend Oreille rivers produced more than 46 percent of the utility's total power supply. Almost 36 percent came from the Bonneville Power Administration (BPA). The rest came from a variety of other sources, including a gas-fired combustion turbine in Klamath Falls, Ore., and the Stateline Wind Project near Walla Walla, Wash.

In November 2004, City Light assured delivery of energy from Stateline through 2021 when it secured long-term transmission capacity from PacifiCorp at a cost of \$2.3 million. City Light signed a 20-year contract for Stateline wind energy in 2001, but at that time, the utility could only secure transmission rights for 10 years.

City Light's contract with Stateline provides 175 megawatts of wind generating capacity, producing 54 average megawatts per year, or enough energy for about 53,000 Seattle homes.

Under its contract with BPA, City Light currently receives a block shaped to its monthly net requirement of 163.8 average megawatts. It also receives a "slice" of the system, through which the utility purchases 4.6676 percent of the federal

Columbia River system output and pays the same percentage of the system's actual costs. That slice averages 330 megawatts. Monthly payments are based on a projection of system costs, with an annual true-up when actual costs have been determined. In 2004, true-up calculations resulted in net credits to City Light totaling \$4.4 million.

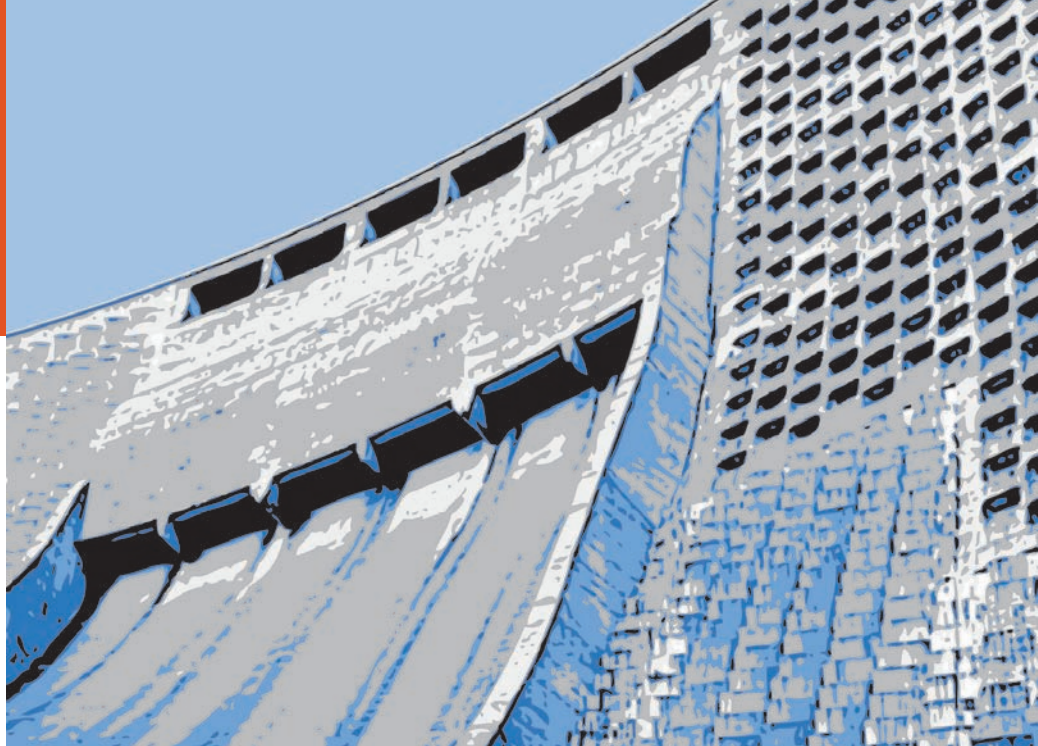
Boundary Relicensing and Integrated Resource Plan

City Light in 2004 embarked on two initiatives with important long-term implications for its resource portfolio: relicensing of the Boundary Hydroelectric Project and an Integrated Resource Plan (IRP).

The Boundary Hydroelectric Project is City Light's largest generating facility, supplying up to 40 percent of Seattle's power requirements. Total plant capability is about 1,051 megawatts at maximum pool elevations. It is a reliable, renewable resource and City Light's most economical source of power. The dam is located in a narrow canyon of the Pend Oreille River, in the northeastern corner of Washington State, 107 miles north of Spokane and one mile south of the Canadian border.

The project's federal license does not expire until 2011, but City Light has already begun the complex and extensive relicensing process. The utility studied three processes administered by the Federal Energy Regulatory Commission (FERC) and determined the Integrated Licensing Process (ILP) would best suit the City of Seattle's needs, because it provides more opportunity for early consultations and stakeholder participation before filing the license application. City Light held an initial public meeting at Boundary in November 2004 and is working with stakeholders representing fish and wildlife agencies, area tribes, environmental organizations and others.

Also in 2004, City Light began work on an Integrated Resource Plan, scheduled to be completed by 2006. The plan will identify a long-term resource strategy to meet customer load at minimum cost, risk and environmental impact. Work in 2004 involved hiring a consultant to review and evaluate City Light's preliminary IRP background work and help identify a preferred approach and scope for the 2006 IRP. Given the current industry environment for electric utilities, City Light expects to incorporate risk management and transmission issues in its IRP.





Environment

City Light received the award for its work to protect salmon in the upper Skagit River, and for its consistent support of Salmon Homecoming objectives through 12 years of service to tribal and nontribal communities.

In 2004, City Light continued to build on its record as one of the cleanest, greenest utilities in the country.

For the sixth consecutive year, the National Hydropower Association (NHA) recognized City Light for outstanding environmental stewardship in the Skagit River watershed. The utility continued to work with stakeholders, preserve and improve salmon habitat, conduct research on bull trout biology, and manage river flows to aid spawning and nesting fish.

Those efforts were also recognized by the Salmon Homecoming Alliance, which awarded City Light the Seventh Generation Legacy Cornerstone Award in September. City Light received the award for its work to protect salmon in the upper Skagit River, and for its consistent support of Salmon Homecoming objectives through 12 years of service to tribal and nontribal communities.

The Seventh Generation Legacy Awards are presented as an acknowledgement of contributions and programs made by individuals and entities that benefit the salmon resource and build tribal/nontribal team spirit in the process. The award's name reflects the tribal tradition of basing today's decisions on the impacts they will have on descendants, seven generations from now.



Conservation

City Light continued its progress in 2004 toward meeting all load growth through 2011 through conservation and new renewable resources.

Through the Conservation Augmentation Agreement with the Bonneville Power Administration, City Light received \$8.63 million in 2004. City Light anticipated a minimum of 7.45 average megawatts of energy savings for federal fiscal year 2003-2004.

Energy savings in the commercial and industrial sectors amounted to 5.92 average megawatts in calendar year 2004. The increase from last year's 4.42 average megawatts reflected a recovering economy and an improving climate for energy-efficiency investments by large businesses. City Light was involved with 227 customer contracts among large companies, institutions and governments within the service territory. City Light's energy management field staff experts provided technical assistance and aggressive new construction and retrofit programs for lighting, heating and cooling systems and industrial processes.

City Light's community conservation programs - aimed at residential customers, multifamily building owners and small businesses - realized 1.5 average megawatts of savings in 2004, slightly below savings of 1.72 average megawatts in 2003. The programs provide financial incentives for multifamily retrofits and new construction, small

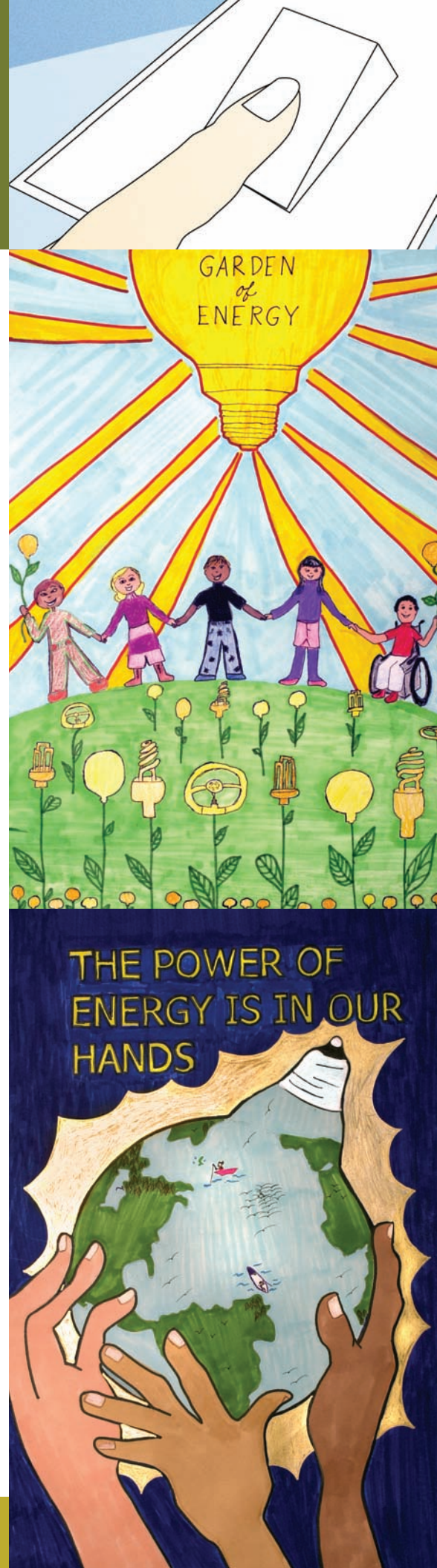
commercial lighting retrofit, resource-efficient clothes washers and low-income residential conservation. In 2004, City Light was involved in 38 new multifamily construction projects, 171 multifamily retrofits and 349 projects with small businesses. The utility provided Wash Wise rebates to 4,551 customers.

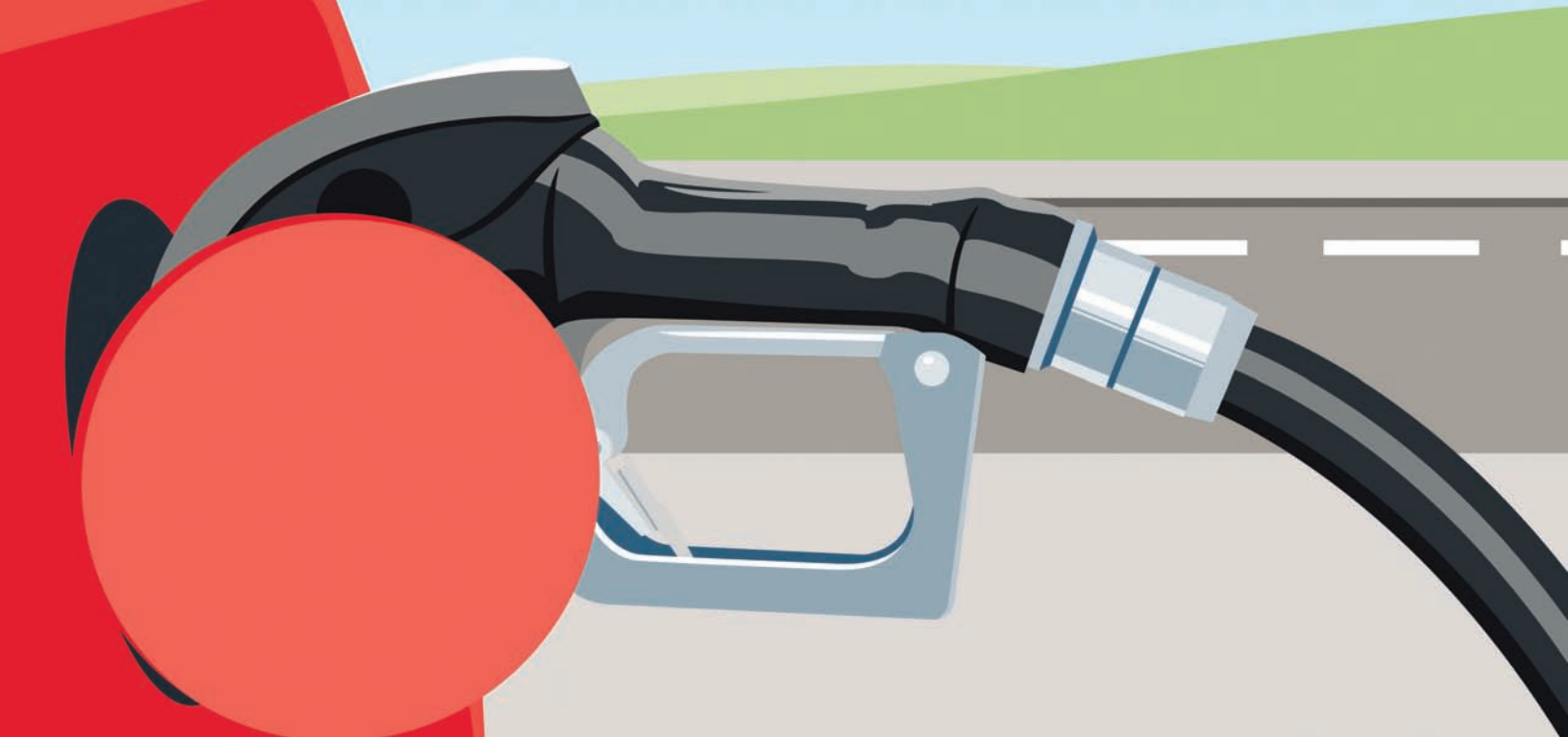
Total 2004 energy savings for all sectors was enough to power 110,000 Seattle homes for one year. The resulting reduction in greenhouse gas emissions is the equivalent of removing 70,600 vehicles from the region's roads for the next 18 years.

The Neighborhood Power Project targets a different neighborhood each year to promote resource conservation. Focusing on Seattle's Ballard and North Rainier/International District neighborhoods in 2004, City Light performed 183 green audits for residential customers and distributed 9,930 compact fluorescent light bulbs to the community.



Garden, Reyn Gross
Hands, LaToya Weber





In 2004, City Light implemented its biodiesel program. Biodiesel is a renewable fuel that can be made from raw or recycled vegetable oils and animal fats.

Greenhouse gas mitigation

To fight global warming, the City of Seattle adopted a Greenhouse Gas Mitigation Strategy for City Light in 2001. It set standards for calculating greenhouse-gas emissions from all City Light resources and operations, as well as strategies for mitigating them. Under the first greenhouse-gas offset contract, signed with Climate Trust in 2003, City Light buys offsets produced by the use of substitute cement materials.

In 2004, City Light implemented its biodiesel program. Biodiesel is a renewable fuel that can be made from raw or recycled vegetable oils and animal fats. It contains almost no sulfur, and using a gallon of biodiesel instead of a gallon of petroleum diesel reduces greenhouse-gas emissions by 78%.

City Light is helping pay for the cost of biodiesel in local bus, garbage truck and ferry fleets. Partnering with large users of petroleum diesel leverages City Light's efforts by helping to build demand for biodiesel. As demand builds, local production will increase, and the price will go down as availability increases. This will encourage more widespread use, producing cleaner air locally and creating economic opportunity in rural communities where vegetable-oil-producing crops are grown.

City Light was also a partner in 2004 in the Shore Power program. The utility agreed to extend electrical distribution lines onto the Port of Seattle's Pier 30 so docked cruise ships could access the City Light system and avoid running diesel or natural gas motors to power their hotel functions while in port.

Through biodiesel, shore power and other mitigation programs, City Light intends to offset the equivalent of 200,000 metric tons of carbon dioxide per year starting in 2005.

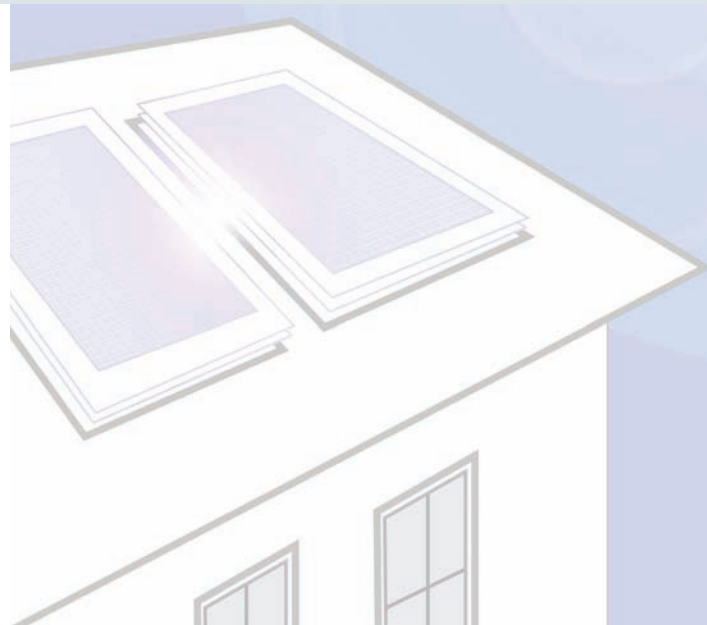
Seattle Green Power

Seattle Green Power gives customers the option to help City Light increase the development of new

sources of renewable energy, including solar projects at local public and non-profit facilities. Under the program, customers make voluntary payments in addition to their regular bills to support clean energy with no greenhouse gas emissions.

Customer contributions to Seattle Green Power support local and regional renewable energy projects, including solar, that are not currently part of City Light's resource portfolio. In 2004 City Light completed seven new public solar demonstration projects, with a capacity rating of 43 kilowatts. Partners included the Seattle Center, the U.S. General Services Administration, the University of Washington, the Seattle Public Library and the Shoreline School District.

City Light partnered with Pioneer Organics to promote Seattle Green Power in 2004. Customers who signed up for green power during the promotion received a free package of fresh organic produce worth \$30. The effort resulted in 1,450 new residential green power subscribers, bringing the total to 4,800 by the end of 2004.





Customer Service

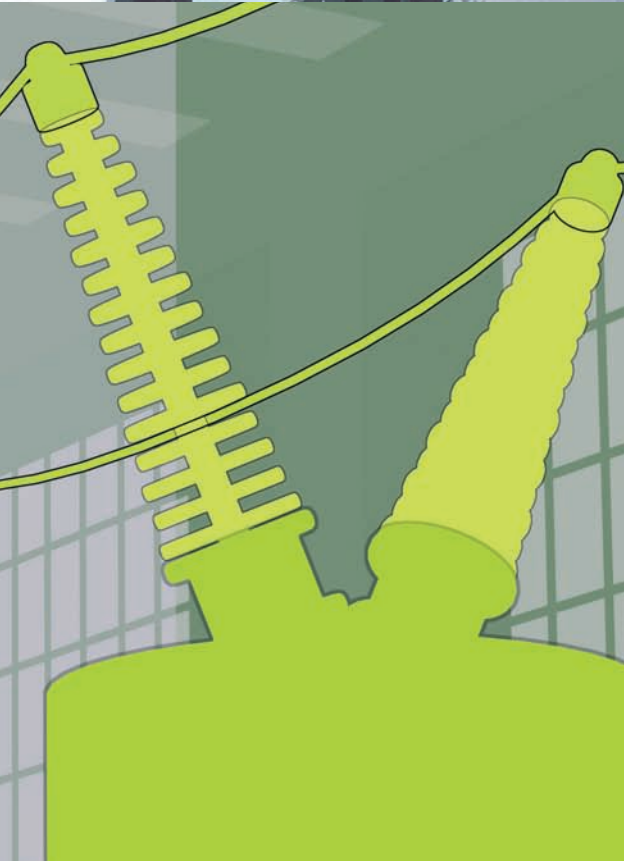
Phase I of City Light's organizational restructuring created four business units. The former customer service and distribution branches were combined into one Customer Service unit. Now all the people who provide the utility's direct service to customers - from billing to meter reading to line repair to conservation programs - are in the same business unit. Customer Service is responsible for 14 substations, 2,000 feeder lines, 3,100 miles of distribution circuit, 370,000 customer billing accounts and 381,000 customer meters.

The year began eventfully for the unit. An early-January storm brought snow and freezing rain to the region, sent trees into power lines and left more than 45,000 City Light customers without power. Line crews worked around the clock in difficult and dangerous conditions to restore power.

On a less dramatic but no less important note, City Light developed and adopted a planning framework for its Transmission and Distribution Capacity Plan, expected to be completed in mid-2005. The frame-

work will guide the utility's plan for meeting system demand over the next 20 years, particularly in growth areas like South Lake Union, South Downtown (SODO), the Denny Triangle and downtown Seattle. The capacity plan will identify substations, feeders and geographic areas that will require new capacity and recommend a range of improvements and solutions.

Major engineering and fieldwork was necessary in 2004 to relocate electrical infrastructure in the path of Sound Transit's LINK light rail project in South Seattle and downtown. City Light's work kept pace with Sound Transit's planning and construction throughout the year. City Light also performed planning and technical work in anticipation of possible replacement of the Alaskan Way Viaduct and construction of the Seattle Monorail.



Now all the people who provide the utility's direct service to customers - from billing to meter reading to line repair to conservation programs - are in the same business unit.





“Change your opinions, keep to your principles;
change your leaves, keep intact your roots.”

Victor Hugo

As City Light undertook to transform itself in 2004, it did so with a firm grasp on its fundamental principles and new nourishment for its deep roots. While undergoing change, the utility continued to embrace the benefits of public power, respect for the environment, and accountability to its citizen owners.

It was truly a watershed year for the utility, with new leadership in place, organizational restructuring begun and crucial financial milestones achieved. 2004 happened to mark the 99th year since City Light began generating power for the citizens of Seattle. As the year ended, the utility was poised to celebrate its past and anticipate its next century of service.



Executive Team

Jorge Carrasco, Superintendent

Steve Call, Interim Chief Financial Officer

Beatrice Hughes, Interim Human Resources Officer

Hardev Juj, Interim Customer Service & Energy Delivery Officer

John Prescott, Power Supply & Environmental Affairs Officer

Bob Royer, Director of Communications and Public Affairs

Elected Officials

Mayor

Greg Nickels

Seattle City Council

Jan Drago, Council President, Chair: Government Affairs & Labor Committee

Jim Compton, Chair: Utilities & Technology Committee

Richard Conlin, Chair: Transportation Committee

David Della, Chair: Parks, Neighborhoods, & Education Committee

Jean Godden, Chair: Energy & Environmental Policy Committee

Nick Licata, Chair: Public Safety, Civil Rights, & Arts Committee

Richard McIver, Chair: Finance & Budget Committee

Tom Rasmussen, Chair: Housing, Human Services, & Health Committee

Peter Steinbrueck, Chair: Urban Development & Planning Committee

City Attorney

Thomas A. Carr

City Light Advisory Board

Donald Wise, Chair

Carol Arnold

Randy Hardy

Jay F. Lapin

Sara Patton

Gary B. Swofford

INDEPENDENT AUDITORS' REPORT

Superintendent
City of Seattle - City Light Department
Seattle, Washington

We have audited the accompanying balance sheets of the City of Seattle - City Light Department (the "Department") as of December 31, 2004 and 2003, and the related statements of revenues, expenses, and changes in equity and of cash flows for the years then ended. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department as of December 31, 2004 and 2003, and the changes of its equity and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 16 through 21 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Department's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

The logo for Deloitte & Touche LLP, featuring the company name in a stylized, handwritten-style script.

Deloitte & Touche LLP
Seattle, Washington
April 22, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS – DECEMBER 31, 2004

The following discussion and analysis of the financial performance of the City of Seattle - City Light Department (the "Department") provides a summary of the financial activities for the year ended December 31, 2004. This discussion and analysis should be read in combination with the Department's financial statements, which immediately follow this section.

RESULTS OF OPERATIONS

Condensed Revenues and Expenses

Year ended December 31:	2004	2003
Operating revenues	\$777,918,589	\$739,005,298
Nonoperating revenues	4,286,396	3,849,386
Total revenues	782,204,985	742,854,684
Operating expenses	710,002,913	700,067,504
Nonoperating expenses	76,304,899	77,054,688
Total expenses	786,307,812	777,122,192
Capital contributions	10,580,789	22,089,096
Grants	7,282,976	4,044,558
Net income (loss)	\$ 13,760,938	\$ (8,133,854)

SUMMARY

The Department realized net income of \$13.8 million in 2004, an improvement of \$21.9 million from the net loss of \$8.1 million recorded in 2003. Higher revenue from sales of energy to retail customers accounts for most of the improvement in financial results. Retail revenues were \$24.5 million higher in 2004 than in the prior year. Revenue from wholesale power sales (net of the cost of wholesale purchases) was \$113.6 million, or virtually the same amount as in 2003. Lower power costs, in particular a reduction of \$26.1 million in the cost of power purchased from the Bonneville Power Administration, were partially offset by a slight increase in other operations and maintenance costs. Income from fees and grants were \$8.3 million lower than in 2003.

In December 2004, the Department amortized the final monthly installment of \$8.3 million in excess power costs deferred from 2001. In 2002, 2003, and 2004, \$300 million in deferred power costs was amortized in equal monthly amounts. If power costs had not been deferred from 2001 and amortized over the 2002-04 period, net income in 2004 would have been \$113.8 million.

REVENUES

Retail Revenue – Revenue from sales of energy to retail customers increased from \$552.2 million in 2003 to \$576.7 million in 2004, an increase of 4.4%. Virtually all of this increase occurred in the non-residential rate classes. Revenue billed to residential customers totaled \$199.2 million, an increase of only \$0.1 million from the prior year. Billings to non-residential

customers generated \$376.9 million in revenue, an increase of \$24.8 million from the 2003 level. Recognition of unbilled revenue added \$1.1 million to revenue in 2003, but only \$0.6 million in 2004.

Most of the increase in non-residential revenue from 2003 to 2004 can be attributed to a number of special nonrecurring circumstances.

- **Streetlight Payments** – The rate ordinance which took effect on December 24, 1999 allocated the costs of streetlighting in Seattle and Tukwila to the general customer base in those jurisdictions and set rates to recover streetlighting costs from those customers. Previously, such costs had been paid by the general funds of the cities of Seattle and Tukwila. On November 13, 2003, the Washington State Supreme Court ruled that this practice constituted an illegal tax. Effective with the date of the Supreme Court decision, the Department resumed billing the cities of Seattle and Tukwila for streetlight costs, generating \$0.5 million in revenue in 2003 and \$6.0 million in 2004.
- **Revenues from Interruptible Customer** – In calendar years 2002 and 2003, the Department had served one customer in the High Demand General Service rate class on the basis of a contract which set a rate for that customer that was discounted by approximately 20% from the rates paid by other customers in that rate class. The contract required the customer to compensate the Department for the lower rates charged in 2002 and 2003 by paying a higher rate beginning January 1, 2004 until consumption reached a level equal to five times actual consumption in calendar year 2000. In addition, the contract gave the Department the right to interrupt the customer under certain circumstances. In March 2004, the Department and the customer agreed to an amendment to the contract, which provided that the customer would make a one-time payment of \$9 million to compensate the Department for the discounted rates paid in 2002 and 2003. The amended contract also allowed the customer to continue to pay a discounted rate in 2004, but at a higher level than in 2002 and 2003. The \$9.0 million payment was recorded as revenue in 2004.
- **Recovery of Underbillings** – Revenue of \$1.0 million was recorded in 2004 to recover amounts underbilled to certain non-residential customers.

Of the total increase of \$24.8 million in non-residential billings, \$15.4 million can be attributed to these three developments. Billings to the single interruptible customer account for \$2.0 million of the remaining increase of \$9.3 million in non-residential revenue. Amounts billed to other non-residential customers increased by \$7.3 million from 2003 to 2004, reflecting an increase of 1.3% in the average billing rate and growth of 0.9% in energy consumption, as the local economy continued its recovery from the recent recession.

Wholesale Revenue – Sales of surplus power in the wholesale market generated \$163.3 million in 2004, an increase of \$25.6 million from the prior year. However, purchases of wholesale energy were \$25.5 million higher in 2004, increasing from \$24.2 million to \$49.7 million. Therefore, wholesale market transactions, including both sales and purchases, produced net revenue of \$113.6 million in 2004, a slight increase of \$0.1 million over the 2003 level. In both years, the net amount of surplus energy available for sale in the wholesale market was below normal levels, due to low levels of precipitation in the watersheds affecting hydroelectric generation. In 2004, net surplus energy of 2,970,420 MWh was available to the Department, slightly below the net surplus of 3,054,469 MWh in 2003. Under normal water conditions, approximately 4,600,000 MWh of surplus energy would have been anticipated. The shortfall in surplus energy was partially offset by wholesale market prices that were higher than anticipated. In 2004 the Department's wholesale sales were accomplished at an average price of \$39.59 per MWh. The price of wholesale purchases averaged \$41.29 per MWh. The comparable figures in 2003 were \$37.27 per MWh for sales and \$37.61 per MWh for purchases.

Other Power-Related Revenue – This category of revenue consists of a number of miscellaneous power-related transactions which are considered separately from short-term sales and purchases of surplus power in the wholesale market. Revenue in this category fell from \$34.1 million in 2003 to \$20.0 million in 2004. The major cause of this decrease was a reduction in the revenue related to transmission basis sales.

Revenues in 2004 were also lower than in 2003 for other types of transactions.

- Sales of transmission capacity to other utilities generated \$2.8 million in revenue in 2003, but only \$0.9 million in 2004.
- Energy delivered to Tacoma Power under a seasonal exchange agreement was valued at \$1.1 million in 2003. The termination of this agreement in October 2003 meant that no revenue from this source was recorded in 2004.
- Under the terms of its agreement with Pacific Power Marketing for the delivery of power from the State Line Wind project, the Department realized \$1.8 million in revenue for the provision of integration and exchange services in 2003. No integration and exchange services were provided by the Department in 2004.

Offsetting these decreases in revenue from power-related transactions were a number of areas in which revenues increased.

- Since October 2003, the Department has sold spinning reserves to other utilities purchasing the Slice product from the Bonneville Power

Administration ("BPA"). For the 12 months of 2004, these sales generated \$6.2 million in revenue, compared with \$1.6 million in the final three months of 2003.

- The Department received \$39.3 million through 2004 from BPA for the purchase of energy savings. An additional \$12.2 million from BPA will be received through 2006. Proceeds are being recognized as revenue in equal monthly amounts through September 30, 2011, the termination date of the power sales agreement with BPA. Revenue recognized in 2004 totaled \$5.8 million, an increase of \$2.3 million over the 2003 level.

Other Revenues – Revenues from a variety of other sources increased from \$15.0 million in 2003 to \$17.9 million in 2004, an increase of 19.3%. There were increases and decreases in a number of the components of this category that tended to offset one another.

- In 2003 non-utility operations included revenue of \$1.2 million from settlement of a claim related to the performance of turbine runners installed at the Boundary plant. In 2004 the value of the Department's art collection was written off in the amount of \$0.7 million. The effect of these two developments was to lower revenue from non-utility operations by \$1.9 million relative to the 2003 level.
- Revenue from the rental of transmission towers to telecommunications companies for the installation of cell phone antennas declined from \$0.9 million in 2003 to \$0.6 million in 2004.
- Revenue billed to customers to reimburse the Department for operations and maintenance expenses, including work performed for the Seattle Monorail Authority and for telecommunications companies, increased from \$3.3 million in 2003 to \$4.6 million in 2004.
- **Streetlight Refunds** – As a result of the Supreme Court decision, the City of Seattle was required to reimburse the Department for \$23.9 million in streetlight costs that would have been billed to the City for streetlight costs from December 24, 1999 to November 13, 2003. The Department was required to refund to its customers in the city of Seattle the amount collected for streetlight costs over that period and to refund to its customers in the city of Tukwila the amount collected from December 24, 1999 through April 30, 2003. This amount was estimated to be \$21.5 million. The Department recorded the \$2.4 million difference between the \$23.9 million in payments from the City of Seattle and the \$21.5 million in customer refunds as other operating revenues in 2004.
- In 2004, the Department realized revenues totaling \$1.0 million for past payments to the City to be refunded.

EXPENSES

Power Expenses – Expenses related to the production and purchase of power increased from \$440.6 million in 2003 to \$442.8 million in 2004, an increase of 0.5%. However, included in these figures are the increase of \$25.5 million in short-term wholesale power purchases that was discussed above in connection with short-term wholesale power sales and the decrease of \$13.3 million related to transmission basis sales. If these two elements are excluded, power costs declined from \$403.0 million in 2003 to \$393.0 million in 2004.

Generation – Costs of operating and maintaining the Department's hydroelectric plants increased slightly from \$20.2 million in 2003 to \$20.3 million in 2004. A decrease of \$0.8 million in regulatory charges by the Federal Energy Regulatory Commission ("FERC") was offset by a higher valuation of energy delivered to Pend Oreille County Public Utility District ("PUD") to compensate the PUD for the encroachment of the Department's Boundary plant on the PUD's Box Canyon plant and by increases in maintenance costs at the Boundary and Skagit Projects.

Purchased Power – The cost of power purchases under long-term contracts with other utilities declined from \$240.5 million in 2003 to \$229.4 million in 2004. Power purchased from BPA decreased in cost from \$157.1 million in 2003 to \$131.0 million in 2004, a reduction of \$26.1 million. Over 70% of the power purchased from BPA by the Department is in the form of a "Slice-of-the-System," through which the Department purchases 4.6676% of the output of the Federal Columbia River Power System and pays the same percentage of the System's actual costs. Monthly payments are based on a projection of the costs of the System, with provision for an annual true-up when actual costs have been determined. In 2003 the Department recorded expenses of \$8.6 million in true-up payments for Slice costs in the contract year ending September 30, 2002. In 2004 the Department true-up calculations resulted in net credits totaling \$4.4 million. The Slice true-up therefore accounts for \$13.0 million of the \$26.1 million variance in BPA costs. The remainder of the variance is attributable to a reduction in the average rate charged by Bonneville and a reduction in the amount of energy delivered to the Department pursuant to a provision in the Department's contract with BPA which reduces the Department's entitlement to purchase energy by the amount of conservation savings purchased by BPA.

The cost of other long-term purchased power contracts increased from \$83.4 million in 2003 to \$98.4 million in 2004. The following contracts showed increases over the prior year:

- **Lucky Peak** – The 2002 refinancing of Lucky Peak bonds restructured debt service payments for the project. Debt service in 2003 consisted only of interest on the bonds; principle payments began in 2004 and added \$5.1 million to the cost of power. Total Lucky Peak costs increased from \$12.2 million in 2003 to \$16.8 million in 2004.
- **State Line Wind Project** – Capacity purchased by the Department from the State Line Wind Project increased from 100 MW in 2003 to 150 MW effective January 1, 2004 and 175 MW effective July 1, 2004. Expenses associated with this purchase increased from \$12.9 million in 2003 to \$18.3 million in 2004, reflecting a 61.2% increase in the amount of energy delivered.
- **Klamath Falls Cogeneration Facility** – Deliveries of energy from the Klamath Falls cogeneration facility were 9.8% higher in 2004 than in 2003. Natural gas prices were also significantly higher. As a result, the cost of power from Klamath Falls increased from \$36.3 million in 2003 to \$42.0 million in 2004.
- **Grand Coulee Project Hydroelectric Authority ("GCPHA")** – An increase in contractual incentive payments under the Department's contract with GCPHA resulted in an increase in costs under this contract from \$4.8 million in 2003 to \$5.7 million in 2004. Under the terms of the contract, the incentive payment to the Authority is linked to the Department's cost of power from other sources, which was higher in 2004 than in 2003.
- Other contracts for the purchase and exchange of power were recorded in other purchased power contracts, the net effect of which was a decrease of \$1.5 million in 2004 power costs relative to 2003.

Amortization of deferred power costs totaled \$100 million in both 2004 and 2003. As of December 31, 2004, deferred power costs were fully amortized.

Transmission – The cost of operating and maintaining transmission to the Department's lines increased from \$4.4 million in 2003 to \$5.3 million in 2004 due to increased maintenance activity on overhead lines. The cost of wheeling power over the facilities of other utilities increased from \$30.1 million in 2003 to \$30.9 million in 2004. Additional transmission capacity to transmit power from the State Line Wind Project added \$0.5 million to wheeling costs in the fourth quarter of 2004. The remainder of the increase is attributable to a 1.5% increase in BPA wheeling rates effective October 1, 2003.

Other Power Costs – System control costs totaled \$5.7 million in 2004, a reduction of \$0.3 million from the prior year. Load factoring costs of \$0.4 million in 2003 were not repeated in 2004.

Other Operations and Maintenance Expense – Operations and maintenance expenses in the functional areas of distribution, customer service, energy management, and administration and general activities increased from \$128.6 million in 2003 to \$131.9 million in 2004, an increase of 2.6%. Significant year-to-year changes include the following:

- **Distribution** – Expenses for the operation and maintenance of distribution facilities increased from \$39.1 million in 2003 to \$41.0 million in 2004. Growth in the apprenticeship program and a higher level of tree-trimming activity account for most of the increase.
- **Customer Services** – Customer services expenses of \$33.7 million in 2004 represented an increase of \$2.6 million from the 2003 level. Growth in bad debt expense accounts for the majority of this increase. Bad debt expense on retail accounts grew from \$7.4 million in 2003 to \$10.3 million in 2004, an increase of \$2.9 million. Offsetting this increase was a reduction of \$1.1 million in uncollectible power accounts. In 2003 the bankruptcy of two of the Department's counterparties led to the recognition of \$1.1 million in uncollectible power accounts; there were no such events in 2004. Increases in meter-reading and billing costs account for the remainder of the growth in customer service costs.
- **Energy Management** – Energy management expenses experienced moderate growth of \$0.2 million, from \$11.0 million in 2003 to \$11.2 million in 2004. Growth in the amortization of past conservation investments was the source of the increase.
- **Administration and General** – Expenses in this category, net of administrative and general expenses allocated to capital, conservation and other deferred projects, declined from \$47.4 million in 2003 to \$46.0 million in 2004. Reductions in legal expenses, claims for injuries and damages, and rental expenses account for the bulk of the decrease in administrative and general expenses.

Taxes – Payments of city and state taxes and contractual payments to local jurisdictions showed a net decrease of \$0.2 million, from \$61.6 million in 2003 to \$61.4 million in 2004, in spite of the increase in retail revenue. Since city and state taxes are assessed on gross retail revenues, an increase in tax payments would have been expected. However, payments from the City of Seattle for streetlights, which resumed in November 2003, were not taxable; through November 2003 streetlight costs were recovered through the rates of all customer classes in Seattle and Tukwila and were taxable. The change in the taxability of streetlight revenues reduced tax payments by \$0.5 million from 2003 to 2004. In 2003 the Department was assessed \$1.1 million by the state on the basis of the state's audit of past tax payments. In 2004 the Department successfully challenged some of the audit findings and recovered \$0.3 million of the amounts assessed in 2003.

Contractual payments to suburban jurisdictions under the terms of the Department's franchises increased by \$0.3 million from 2003 to 2004 due to the signing of a new franchise with the city of Tukwila, which took effect in March 2003.

Depreciation – Depreciation expense totaled \$73.9 million in 2004, an increase of \$4.6 million from the level of the prior year. Depreciation of distribution and general plant each increased by about \$2.0 million, reflecting the Department's investment in capital improvements in those areas. An increase of \$0.5 million was recorded in the depreciation of hydraulic plant.

OTHER NONOPERATING INCOME AND EXPENSE

Interest expense in 2004 decreased by \$0.1 million from the level of \$73.9 million recorded in 2003. The increase in interest expense on first-lien bonds showed a net increase of \$1.9 million, from \$71.3 million in 2003 to \$73.2 million in 2004. The increase in interest expense reflects the increase in outstanding bonds resulting from bond issues in July 2003 and December 2004, offset by savings from the refunding components of those issues. Interest on second-lien variable-rate bonds increased from \$1.0 million in 2003 to \$1.1 million in 2004 as interest rates rose in the latter year. Interest expense in 2003 of \$4.8 million on revenue anticipation notes outstanding in that year was not repeated in 2004 due to the redemption of those notes in March and November 2003. Interest expense of \$2.6 million was recorded in 2004 to compensate customers in Seattle and Tukwila for the loss of use of funds that they had paid through their rates for streetlight costs from 2000 through 2003. Compensation of customers for loss of use was required by court decisions in litigation contesting the legality of the Department's method recovering streetlight costs. The allowance for funds used during construction, which is an offset to interest expense, decreased from \$4.3 million in 2003 to \$3.5 million in 2004.

Amortization expenses related to bond issue costs, bond premium and discount and refunding loss declined from \$3.1 million in 2003 to \$2.5 million in 2004 as a result of the issuance of refunding and new-money bonds in 2003 and 2004.

Investment Income – Investment income totaled \$2.5 million in 2004, a reduction of \$1.3 million from the 2003 level. In 2003 funds available for investment were at higher levels as the Department accumulated substantial cash balances for the repayment of revenue anticipation notes that matured in that year. With cash balances at more normal levels in 2004, interest income decreased.

Gain on Sale of Property – The Department realized gains amounting to \$2.2 million on the sale of properties in 2004, an increase of \$1.5 million from the gains recorded in 2003.

Fees and Grants – Fees and grants declined by \$8.3 million in 2004 from the unusually high level of \$26.1 million in 2003, due mainly to the occurrence of one-time events in 2003 that were not repeated in 2004. The Department recorded \$9.2 million in in-kind contributions in 2003 related to arterial improvements carried out by the Seattle Engineering Department. The Department also received \$3.8 million from BPA in reimbursement for 2003 costs incurred in reinforcing transmission lines to stabilize the regional transmission grid. Neither of these events was repeated in 2004. Offsetting these declines was an increase of \$2.9 million in installation charges. Grants increased by \$3.2 million primarily as a result of work performed for Sound Transit in connection with the construction of the regional light rail system.

CONDENSED BALANCE SHEETS

As of December 31,	2004	2003
Assets:		
Utility plant	\$1,408,183,614	\$1,390,857,362
Capitalized purchased power commitment	35,662,876	45,130,152
Restricted assets	123,718,739	159,432,145
Current assets	252,414,183	178,234,062
Other assets	206,203,653	286,898,970
Total assets	\$2,026,183,065	\$2,060,552,691
Liabilities:		
Long-term debt	\$1,459,292,622	\$1,462,609,162
Noncurrent liabilities	45,010,305	55,717,497
Current liabilities	185,063,263	215,129,588
Deferred credits	32,929,702	36,970,209
Total liabilities	1,722,295,892	1,770,426,456
Equity:		
Invested in capital assets—		
net of related debt	128,453,544	158,451,970
Restricted:		
Deferred power costs		100,000,000
Other	72,156,591	56,831,686
Unrestricted	103,277,038	(25,157,421)
Total equity	303,887,173	290,126,235
Total liabilities and equity	\$2,026,183,065	\$2,060,552,691

UTILITY PLANT

Utility Plant Assets increased \$96.8 million for 2004.

The hydroelectric system increased by \$19.8 million as follows: \$4.3 million for the completed portion of the North Cascade Environmental Learning Center; \$0.5 million to upgrade exhibits at Newhalem; \$12.8 million for the Boundary rehabilitation project in progress; and \$0.7 million for Gorge Road improvements. Other hydraulic system increased \$1.5 million.

Transmission plant increased by \$0.9 million mainly due to replacement of circuit breakers at substation switch yards.

Distribution plant increased by \$60.6 million as follows: \$7.8 million for poles and \$6.2 million for overhead conductors for capacity additions and relocations; \$4.5 million for underground conduit; \$7.7 million for network underground conduit; \$7.3 million for underground conductors; \$8.5 million for network underground conductors for meters, Broad Street substation network, and Sound Transit; and \$5.7 million for transformers. An increase of \$12.9 million was due to overhead services, underground services, network underground, meter additions, and streetlights.

General Plant assets increased by \$15.6 million as follows: \$6.9 million for communication equipment for the Boundary Project; \$2.5 million for systems software for the Department's data warehouse; \$5.2 million by the Department for computer equipment, network and other software; and \$1 million for other general plant assets.

Land and land rights increased \$0.9 million. Land was purchased for wildlife protection in the Skagit watershed for \$0.8 million. Two substation properties were sold for \$1.7 million, and the Department's interest in Skookumchuck was sold for \$0.6 million, resulting in a gain of \$0.4 million.

Nonoperating property net of accumulated depreciation increased \$1.3 million. Art inventory was written off by \$0.7 million.

OTHER ASSETS

Statement of Financial Accounting Standards No. 71, *Accounting for the Effects of Certain Types of Regulation*, provides for the deferral of certain utility costs and related recognition in future years as the costs are recovered through future rates. Deferred costs are authorized by resolutions passed by the Seattle City Council and include capitalized energy management services, deferred power costs, capitalized relicensing costs, deferral of payments to the Province of British Columbia under the High Ross agreement, and other deferred charges and assets. Detail for other deferred charges and assets-net, is provided in Note 10 to the accompanying financial statements.

Deferred assets totaled \$206.2 million at December 31, 2004, decreasing \$80.7 million from December 31, 2003. In 2001, \$300 million of short-term wholesale power costs were deferred for recovery through future revenues and were fully amortized by December 31, 2004 at a rate of \$100 million per year.

The Department is subject to true-up payments for the Department's fixed 4.6676 percentage of actual output and costs of Bonneville Slice power through September 30, 2011. In 2002, \$10.4 million was deferred for the Bonneville Slice contract true-up billing and \$1.9 million remained unamortized at December 31, 2003. A true-up credit for federal fiscal year 2003 in the amount of \$6.3 million was deferred as of December 31, 2003, and was recognized during 2004. Bonneville rate adjustments will be passed through to retail electric customers in the form of rate adjustments in accordance with Section 25.49.081 of the Seattle Municipal Code.

LONG-TERM DEBT

Activity during 2004 for long-term debt included issuance of \$284.9 million in Municipal Light & Power Improvement and Refunding Revenue Bonds in December. The proceeds were used to fund the ongoing Capital Improvement Program and to defease certain prior lien bonds. Scheduled redemption of certain prior lien bonds also took place in the normal course of business. A note payable to the City of Seattle for \$5.6 million for purchase of real estate was issued in 2003 and is due in 2005 (see Note 6 of the accompanying financial statements).

After payment of cash operating expenses, net revenues available to pay debt service were equal to 2.39 times principal and interest on first lien bonds. If the amortization of \$100 million in power costs deferred from 2001 is factored into the calculation, net revenues would be equal to 1.58 times first lien debt service.

ENVIRONMENTAL LIABILITIES

Environmental liabilities totaled \$5.8 million at December 31, 2004 and 2003. The liabilities are primarily attributable to the estimated cost of remediating contaminated sediments in the lower Duwamish Waterway, which was designated a federal Superfund site by the Environmental Protection Agency in 2001. The Department is considered a potentially responsible party for contamination in the Duwamish River due to land ownership or use of property located along the river.

RISK MANAGEMENT

The Department's exposure to market risk is actively managed by a Risk Management Committee. The Department engages in market transactions only to meet its load obligations or to sell surplus energy. Except for strictly limited and closely monitored intraday and interday trading to take advantage of owned hydro storage, the Department does not take market positions in anticipation of generating revenue.

With a significant portion of the Department's revenue expected from wholesale market sales, great emphasis is placed on the management of market risk. Processes, policies, and procedures designed to monitor and control these market risks, including credit risk, are in place and engagement in the market is strictly governed by those policies. A consulting firm is in the process of reviewing the Department's power marketing function and is expected to make its report in 2005.

The Department measures the market price risk in its portfolio on a weekly basis using a modified revenue at risk measure that reflects not only price risk, but also the volumetric risk associated with its hydro-dominated power portfolio. Monte Carlo simulation is used to capture financial risk, and scenario analysis is used for stress testing.

The Department takes a very conservative approach to managing volumetric risk, assuming hydro generation at the 95% exceedance level until observed precipitation or snow pack surveys indicate otherwise.

While the Department's portfolio includes purchased power from a gas turbine (a share of the Klamath Falls cogeneration facility), the Department's exposure to gas price excursions is limited, as the Department has monthly dispatch rights for that resource and only exercises those rights if the economics of operating the plant is favorable.

The Department mitigates credit risk by trading only with qualified counterparties. The Credit Committee, a subcommittee of the Risk Management Committee, establishes credit policies and counterparty limits based on approved criteria. The Credit Committee monitors credit exposure and updates counterparty limits to reflect their most current financial condition and creditworthiness.

BALANCE SHEETS

As of December 31,	2004	2003
ASSETS		
UTILITY PLANT—At original cost:		
Plant in service—excluding land	\$2,249,506,046	\$2,152,680,745
Less accumulated depreciation	(980,740,177)	(914,978,513)
	1,268,765,869	1,237,702,232
Construction work-in-progress	85,659,390	101,523,497
Nonoperating property—net of accumulated depreciation	13,112,083	11,860,650
Land and land rights	40,646,272	39,770,983
	1,408,183,614	1,390,857,362
 CAPITALIZED PURCHASED POWER COMMITMENT	 35,662,876	 45,130,152
 RESTRICTED ASSETS:		
Municipal Light & Power Bond Reserve Account:		
Cash and equity in pooled investments	84,682,384	79,622,670
Bond proceeds and other:		
Cash and equity in pooled investments	5,219,032	7,406,387
Investments	26,888,326	68,244,446
Special deposits and other	6,928,997	4,158,642
	123,718,739	159,432,145
 CURRENT ASSETS:		
Cash and equity in pooled investments	60,707,996	9,347,170
Accounts receivable, net of allowance of \$16,087,000 and \$12,630,000	108,645,662	82,589,514
Unbilled revenues	61,803,766	61,194,790
Energy contracts	1,825,246	5,496,378
Materials and supplies at average cost	18,885,987	18,724,736
Prepayments, interest receivable, and other	545,526	881,474
	252,414,183	178,234,062
 OTHER ASSETS:		
Capitalized energy management services—net	124,315,501	116,277,404
Deferred power costs	-	100,000,000
Capitalized relicensing costs	16,013,434	14,328,345
Deferred costs—High Ross Agreement	49,194,941	40,321,500
Other deferred charges and assets—net	16,679,777	15,971,721
	206,203,653	286,898,970
 TOTAL	 \$2,026,183,065	 \$2,060,552,691

See notes to financial statements.

	2004	2003
LIABILITIES		
LONG-TERM DEBT:		
Revenue bonds	\$1,537,246,000	\$1,521,526,000
Plus bond premium	40,848,307	29,810,512
Less bond discount	(745,410)	(1,570,959)
Less deferred charges on advanced refunding	(53,460,275)	(38,495,016)
Less revenue bonds—current portion	(64,596,000)	(53,820,000)
Note payable—City of Seattle	-	5,158,625
	1,459,292,622	1,462,609,162
NONCURRENT LIABILITIES:		
Accumulated provision for injuries and damages	9,507,214	10,491,426
Compensated absences	10,369,328	10,221,563
Long-term purchased power obligation	35,662,876	45,130,152
Less obligation—current portion	(10,705,000)	(10,300,000)
Other	175,887	174,356
	45,010,305	55,717,497
CURRENT LIABILITIES:		
Accounts payable and other	60,170,556	52,222,132
Accrued payroll and related taxes	6,018,469	4,949,166
Compensated absences	479,657	495,974
Accrued interest	16,226,097	19,797,650
Streetlight refund payable	19,998,457	-
Note payable—City of Seattle	5,158,625	70,000,000
Long-term debt—current portion	64,596,000	53,820,000
Purchased power obligation	10,705,000	10,300,000
Energy contracts	1,710,402	3,544,666
	185,063,263	215,129,588
DEFERRED CREDITS	32,929,702	36,970,209
Total liabilities	1,722,295,892	1,770,426,456
COMMITMENTS AND CONTINGENCIES (Note 13)		
EQUITY:		
Invested in capital assets—net of related debt	128,453,544	158,451,970
Restricted:		
Deferred power costs	-	100,000,000
Capitalized energy management services	35,821,624	28,944,953
Deferred costs—High Ross Agreement	21,884,942	22,114,834
Other	14,450,025	5,771,899
Unrestricted	103,277,038	(25,157,421)
	303,887,173	290,126,235
TOTAL	\$2,026,183,065	\$2,060,552,691

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN EQUITY

Years Ended December 31,	2004	2003
OPERATING REVENUES:		
Retail power revenues	\$ 576,692,244	\$ 552,232,914
Short-term wholesale power revenues	163,264,753	137,650,966
Other power-related revenues	20,027,768	34,082,244
Other	17,933,824	15,039,174
	777,918,589	739,005,298
OPERATING EXPENSES:		
Long-term purchased power	229,416,360	240,505,211
Short-term wholesale power purchases	49,714,393	24,232,720
Amortization of deferred power costs	100,000,000	100,000,000
Other power expenses	7,074,410	21,139,577
Generation	20,283,509	20,210,903
Transmission	36,282,986	34,511,283
Distribution	40,972,862	39,116,032
Customer service	33,680,968	31,068,350
Energy management	11,237,221	11,014,634
Administrative and general	46,042,690	47,392,441
City of Seattle occupation tax	34,488,319	33,607,729
Other taxes	26,956,351	27,998,595
Depreciation	73,852,844	69,270,029
	710,002,913	700,067,504
Net operating income	67,915,676	38,937,794
NONOPERATING REVENUES (EXPENSES):		
Investment income	2,481,150	3,813,194
Interest expense	(73,823,812)	(73,934,677)
Amortization of refunding loss	(4,696,692)	(5,817,183)
Amortization of bond premium	3,004,828	3,804,504
Amortization of bond discount and issue costs	(789,223)	(1,107,332)
Other income—net	1,805,246	36,192
	(72,018,503)	(73,205,302)
Net loss before fees and grants	(4,102,827)	(34,267,508)
FEES AND GRANTS:		
Capital contributions	10,580,789	22,089,096
Grants	7,282,976	4,044,558
	17,863,765	26,133,654
NET INCOME (LOSS)	13,760,938	(8,133,854)
EQUITY:		
Beginning of year	290,126,235	298,260,089
End of year	\$ 303,887,173	\$ 290,126,235

See notes to financial statements.

STATEMENTS OF CASH FLOWS

Years Ended December 31,	2004	2003
OPERATING ACTIVITIES:		
Cash received from customers and counterparties	\$791,002,215	\$751,992,693
Cash paid to suppliers, employees, and counterparties	(477,722,621)	(468,444,688)
Taxes paid	(71,039,601)	(68,610,633)
Net cash provided by operating activities	242,239,993	214,937,372
NONCAPITAL FINANCING ACTIVITIES:		
Repayment of Revenue Anticipation Note ("RAN")	-	(307,210,000)
Increase (decrease) in short-term borrowings-City of Seattle note	(70,000,000)	70,000,000
Interest paid on RAN	-	(7,324,362)
Interest paid on City of Seattle note	(489,277)	(216,284)
Grants received	6,503,504	2,235,516
Bonneville receipts for conservation augmentation	8,628,000	10,716,542
Payment to vendors on behalf of customers for conservation augmentation	(17,164,802)	(17,910,624)
Net cash used in noncapital financing activities	(72,522,575)	(249,709,212)
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from long-term borrowing-net of discount	299,112,223	265,520,394
Payment to trustee for defeased bonds	(237,479,529)	(123,962,517)
Bond issue costs paid	(1,344,780)	(1,606,283)
Principal paid on long-term debt	(53,820,000)	(40,615,000)
Interest paid on long-term debt	(74,744,950)	(69,694,188)
Acquisition and construction of capital assets	(92,608,287)	(98,070,414)
Increase in other deferred assets and charges	(11,396,560)	(20,319,728)
Proceeds from sale of utility plant	2,364,182	709,000
Contributions in aid of construction	12,055,263	10,811,821
Net cash used in capital and related financing activities	(157,862,438)	(77,226,915)
INVESTING ACTIVITIES:		
Proceeds from investments	83,237,038	40,650,838
Purchases of investments	(41,880,917)	(108,896,905)
Interest received on investments	3,792,440	5,203,219
Net cash provided by (used in) investing activities	45,148,561	(63,042,848)
NET INCREASE (DECREASE) IN CASH AND EQUITY IN POOLED INVESTMENTS	57,003,541	(175,041,603)
CASH AND EQUITY IN POOLED INVESTMENTS:		
Beginning of year	100,534,868	275,576,471
End of year	\$157,538,409	\$100,534,868

(Continued)

STATEMENTS OF CASH FLOWS

Years Ended December 31,	2004	2003
RECONCILIATION OF NET OPERATING INCOME		
TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net operating income	\$ 67,915,676	\$ 38,937,794
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	73,852,844	69,270,029
Amortization of deferred credits	(5,770,236)	(3,442,161)
Amortization of deferred power costs and other charges	110,322,445	110,711,598
Change in:		
Accounts receivable	(25,458,138)	(3,974,205)
Unbilled revenues	(608,976)	(1,115,683)
Materials and supplies	(161,251)	1,722,974
Prepayments, interest receivable, and other	9,360	(3,954,078)
Other deferred charges and assets	333,715	7,395,688
Provision for injuries and damages and claims payable	1,948,141	3,181,299
Accounts payable, accrued payroll, and other	6,085,373	(19,924,530)
Compensated absences	131,448	51,179
Streetlight refund payable	19,998,457	-
Deferred credits	(6,358,865)	16,077,468
Total Adjustments	174,324,317	175,999,578
Net cash provided by operating activities	\$242,239,993	\$214,937,372
SUPPLEMENTAL DISCLOSURES OF NONCASH ACTIVITIES:		
In-kind capital contributions	\$ 297,568	\$ 9,220,363
Note payable incurred for purchase of property	\$ -	\$ 5,565,000

See notes to financial statements.

(Concluded)

NOTES TO FINANCIAL STATEMENTS Years ended December 31, 2004 and 2003

1. OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City Light Department (the "Department") is the public electric utility of the City of Seattle (the "City"). The Department owns and operates certain generating, transmission, and distribution facilities and supplies electricity to approximately 372,818 customers. The Department supplies electrical energy to other City agencies at rates prescribed by City ordinances. The establishment of the Department's rates is within the exclusive jurisdiction of the Seattle City Council. A requirement of Washington State law provides that rates must be fair, nondiscriminatory, and fixed to produce revenue adequate to pay for operation and maintenance expenses and to meet all debt service requirements payable from such revenue. The Department pays occupation taxes to the City based on total revenues.

The Department's revenues were \$12.4 million and \$6.4 million for electrical energy and \$2 million and \$1.9 million for nonenergy services provided to other City departments in 2004 and 2003, respectively.

The Department receives certain services from other City departments and paid approximately \$33.9 million and \$35.7 million, respectively, in 2004 and 2003 for such services. Amounts paid include central cost allocations from the City's general fund for services received such as treasury services, debt management, risk management, personnel, payroll, purchasing, technology services, facilities, facilities maintenance, vehicles, City Auditor, other administrative services, and lease of office facilities.

Accounting Standards – The accounting and reporting policies of the Department are regulated by the Washington State Auditor's Office, Division of Municipal Corporations, and are based on the Uniform System of Accounts prescribed for public utilities and licensees by the Federal Energy Regulatory Commission ("FERC"). The financial statements are also prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Department has applied all applicable GASB pronouncements as well as the following pronouncements, except for those that conflict with or contradict GASB pronouncements: Statements and Interpretations of the Financial Accounting Standards Board ("FASB"), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures. The more significant of the Department's accounting policies are described below.

In June 2001, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 143, *Accounting for Asset Retirement Obligations*, which addresses financial accounting and reporting for legal or contractual obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This statement requires the

recording of the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the associated costs of the asset retirement obligation will be capitalized as part of the carrying amount of the related long-lived asset. The liability will be accreted to its present value each period and the related capitalized costs will be depreciated over the useful life of the related asset. Upon retirement of the asset, the Department will either settle the retirement obligation for its recorded amount or incur a gain or loss. The adoption of this statement on January 1, 2003 did not have a material effect on the Department's financial position or operations.

In April 2003, the FASB issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. The Department has entered into certain forward contracts to purchase or sell power that may no longer meet the normal purchases and sales exception in accordance with the provisions of SFAS No. 149. This statement requires these types of forward contracts to purchase or sell power, which were entered into on or after July 1, 2003, be recorded as assets or liabilities at market value with an offsetting regulatory asset or liability as allowed under SFAS No. 71, *Accounting for the Effects of Certain Types of Regulation*. The adoption of this statement did not have a material effect on the Department's financial position or operations.

In July 2003, the Emerging Issues Task Force ("EITF") reached consensus on Issue No. 03-11, *Reporting Realized Gains and Losses on Derivative Instruments That Are Subject to FASB Statement No. 133 and Not "Held for Trading Purposes"* as Defined in EITF Issue No. 02-3. This EITF issue requires that revenues and expenses from the Department's settled energy contracts that are "booked out" (not physically delivered) should be reported on a net basis as part of operating revenues. The adoption of this statement did not have a material effect on the Department's financial position or operations.

In March 2003, the GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures*. This statement establishes and modifies disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk, and foreign currency risk. This statement also establishes and modifies disclosure requirements for deposit risks: custodial credit risk and foreign currency risk. The requirements of this statement are effective for the Department's financial statements for periods beginning after June 15, 2004 (January 1, 2005). The Department does not expect a material impact on its financial position or results of operations from adoption of this statement.

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes

accounting requirements for insurance recoveries. The requirements of this statement are effective for the Department's financial statements for periods beginning after December 15, 2004 (January 1, 2005). The Department does not expect a material impact on its financial position or results of operations from adoption of this statement.

In July 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement establishes and modifies disclosure requirements for reporting by administrators or trustees of other postemployment benefits ("OPEB") plan assets or by employers or sponsors that include OPEB plan assets as trust or agency funds in financial reports. The requirements of this Statement are effective for the Department's financial statements for periods beginning after December 15, 2006 (January 1, 2007). The Department is in the process of determining the impact on its financial position and results of operation from adoption of this statement.

Utility Plant – Utility plant is recorded at original cost, which includes both direct costs of construction or acquisition and indirect costs, including an allowance for funds used during construction. Property constructed with capital fees received from customers is included in utility plant. Capital fees totaled \$10.6 million in 2004 and \$22.1 million in 2003. Provision for depreciation is made using the straight-line method based upon estimated economic lives, which range from three to 50 years, of related operating assets. The Department uses a half-year convention method on the assumption that additions and replacements are placed in service at mid-year. The composite depreciation rate was approximately 3.3% in 2004 and 3.2% in 2003. When operating plant assets are retired, their original cost together with removal costs, less salvage, is charged to accumulated depreciation. The cost of maintenance and repairs is charged to expense as incurred, while the cost of replacements and betterments is capitalized. The Department periodically reviews long-lived assets for impairment to determine whether any events or circumstances indicate the carrying value of the assets may not be recoverable. No impairment was identified in 2004 or 2003.

Restricted Assets – In accordance with the Department's bond resolutions, state law, or other agreements, separate restricted assets have been established. These assets are restricted for specific purposes, including the establishment of the Municipal Light & Power ("ML&P") Bond Reserve Account, financing of the Department's ongoing Capital Improvement Program, and other purposes.

Compensated Absences – Permanent employees of the Department earn vacation time in accordance with length of service. A maximum of 480 hours may be accumulated and, upon termination, employees are entitled

to compensation for unused vacation. At retirement, employees receive compensation equivalent to 25% of their accumulated sick leave. The Department accrues all costs associated with compensated absences, including payroll taxes.

Accounts Payable and Other – The composition of accounts payable and other at December 31 is as follows:

	2004	2003
Vouchers payable	\$ 7,486,533	\$ 7,471,873
Power accounts payable	29,871,492	24,540,593
Interfund payable	5,265,504	5,892,236
Taxes payable	8,367,304	9,528,936
Claims payable—current	6,098,468	3,166,115
Guarantee deposit and contract retainer	2,909,548	1,502,526
Other accounts payable	171,707	119,853
	<u>\$60,170,556</u>	<u>\$52,222,132</u>

Revenue Recognition – Service rates are authorized by City ordinances. Billings are made to customers on a monthly or bimonthly basis. Revenues for energy delivered to customers between the last billing date and the end of the year are estimated and reflected in the accompanying financial statements under the caption unbilled revenues.

The Department's customer base accounted for electric energy sales as follows:

	2004	2003
Residential	34.5 %	36.1 %
Non-residential	65.5	63.9
	<u>100.0 %</u>	<u>100.0 %</u>

Administrative and General Overhead Applied – Administrative and general costs are allocated to construction work-in-progress, major data processing systems development, programmatic conservation, relicensing mitigation projects, and billable operations and maintenance activities based on rates established by cost studies and totaled \$42.3 million and \$40.9 million in 2004 and 2003, respectively. Total administration and general costs were \$88.4 million and \$88.3 million in 2004 and 2003, respectively, prior to application of overhead.

Interest Charged to Construction – Interest is charged for funds used during the construction of plant assets and to nonbillable construction work-in-progress. Interest charged represents the estimated costs of financing construction projects and is computed using the Department's long-term borrowing rate. The allowance totaled \$3.5 million and \$4.3 million in 2004 and 2003, respectively, and is reflected as a reduction of interest expense in the statements of revenues, expenses, and changes in equity.

Nonexchange Transactions – Capital contributions and grants in the amount of \$17.9 million and \$26.1 million are reported for 2004 and 2003, respectively, on the statements of revenues, expenses, and changes in equity as nonoperating revenues from nonexchange transactions. In-kind capital contributions are recognized at fair value and are generally based either on the internal engineer's estimate of the current cost of comparable plant in service or the donor's actual cost.

Use of Estimates – The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements. The Department used significant estimates in determining reported unbilled revenues, energy contract assets and liabilities, accumulated provision for injuries and damages, allowance for doubtful accounts, accrued sick leave, and other contingencies. Actual results may differ from those estimates.

Significant Risk and Uncertainty – The Department is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include prices on the wholesale markets for short-term power transactions; interest rates; water conditions, weather, and natural disaster related disruptions; terrorism; collective bargaining labor disputes; fish and other Endangered Species Act ("ESA") issues; Environmental Protection Agency ("EPA") regulations; federal government regulations or orders concerning the operations, maintenance, and/or licensing of hydroelectric facilities; other governmental regulations; restructuring of the electrical utility industry; and the costs of constructing transmission facilities that may be incurred as part of a northwest regional transmission system, and related effects of this system on transmission rights, transmission sales, the value of surplus energy, and governance.

Reclassifications – Certain 2003 account balances have been reclassified to conform to the 2004 presentation.

2. UTILITY PLANT

Utility plant in service at original cost, excluding land, at December 31, 2004 consists of:

	Hydraulic Production	Transmission	Distribution	General	Total
Beginning balance	\$ 558,719,929	\$ 145,980,758	\$ 1,139,408,622	\$ 308,571,436	\$ 2,152,680,745
Capital acquisitions	21,961,354	1,187,005	62,987,671	16,314,017	102,450,047
Dispositions	(2,142,454)	(293,036)	(2,623,685)	(777,529)	(5,836,704)
Transfers and adjustments	-	3,332	194,233	14,393	211,958
	578,538,829	146,878,059	1,199,966,841	324,122,317	2,249,506,046
Less accumulated depreciation	(289,063,621)	(65,638,978)	(437,756,656)	(188,280,922)	(980,740,177)
Ending balance	\$ 289,475,208	\$ 81,239,081	\$ 762,210,185	\$ 135,841,395	\$ 1,268,765,869

Utility plant in service at original cost, excluding land, at December 31, 2003 consists of:

	Hydraulic Production	Transmission	Distribution	General	Total
Beginning balance	\$ 527,022,003	\$ 139,951,608	\$ 1,068,429,863	\$ 297,080,941	\$ 2,032,484,415
Capital acquisitions	36,972,921	6,406,711	68,394,546	16,843,145	128,617,323
Dispositions	(5,279,046)	(295,449)	(2,637,960)	(5,352,650)	(13,565,105)
Transfers and adjustments	4,051	(82,112)	5,222,173	-	5,144,112
	558,719,929	145,980,758	1,139,408,622	308,571,436	2,152,680,745
Less accumulated depreciation	(279,420,331)	(62,863,342)	(410,090,161)	(162,604,679)	(914,978,513)
Ending balance	\$ 279,299,598	\$ 83,117,416	\$ 729,318,461	\$ 145,966,757	\$ 1,237,702,232

3. CASH AND EQUITY IN POOLED INVESTMENTS AND INVESTMENTS

Cash and Equity in Pooled Investments and Investments – The City pools and invests all temporary cash surpluses for City departments. The funds of the participating departments use the cash pool similar to a demand deposit account. Departments may deposit cash at any time and can also withdraw cash out of the pool without prior notice or penalty. Therefore, the individual participating funds account for the cash pool as Cash and Equity in Pooled Investments for cash flow reporting purposes. Investments are recorded at fair value based upon quoted market prices. Interest earned on the City's pooled investments and adjustments to fair value are prorated to the individual funds at the end of each month on the basis of their average daily cash balance during the preceding month.

In accordance with the Revised Code of Washington (RCW) 35.39.032, the City has an established Investment Policy by which it manages all temporary cash surpluses and purchases investments authorized as indicated by RCW 35.39.030 and RCW 35.39.034. The City is authorized to purchase U.S. Treasury and government agency securities; certificates of deposits and other investment deposits issued by Washington State depositories that qualify under the Washington State Deposit Protection Act as defined by RCW 39.58; bankers' acceptances purchased in the secondary market; commercial paper purchased in the secondary market and having received the highest rating by at least two nationally recognized rating agencies; repurchase and reverse repurchase agreements with "primary dealers" that have executed master repurchase agreements; mortgage-backed securities; derivative-based securities; and participation in the State Treasurer's local government investment pool. According to City policy, securities purchased will have a maximum maturity of no longer than 15 years, and the average maturity of all securities owned should be no longer than five years. Banks or trust companies acting as the City's agents hold most of the City's investments in the City's name, with respect to credit risk as defined in GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*.

The City is also allowed under state law to make securities lending transactions under the authority of RCW 41.28.005 and the Seattle Municipal Code 4.36.130. Securities lent must be collateralized with cash in the amount of 102% of the market value of the loaned securities. There were securities lending transactions during 2004 and 2003. There were no securities lending program transactions outstanding at year-end 2004 or 2003. All transactions are executed with authorized security dealers, financial institutions, or securities lending agents on a delivery versus payment basis.

The City's residual investment pool did not include reverse repurchase agreements at the end of 2004 or 2003; the City did not invest in

such instruments during 2004 or 2003. Derivative-based securities were owned by the cash pool during 2004 and 2003 and at both year-ends. These securities were callable U.S. government agency instruments.

The first \$100,000 of bank deposits is federally insured. The Washington State Public Deposit Protection Commission ("PDPC") collateralizes deposits in excess of \$100,000. The PDPC is a multiple financial institution collateral pool. There is no provision for the PDPC to make additional pro rata assessments if needed to cover a loss. Therefore, the PDPC protection is of the nature of collateral, not of insurance.

Department dedicated securities with maturities exceeding three months at time of purchase are reported at fair value on the balance sheets; the net increase (decrease) in the fair value of those investments is reported as part of investment income.

Cash and cash equivalents included in cash and equity in pooled investments at December 31 consist of:

	2004	2003
Restricted assets:		
Municipal Light and Power Bond		
Reserve Account	\$20,436,614	\$14,486,404
Bond proceeds and other	1,250,033	1,348,695
Special deposits and other	6,928,997	4,158,641
	28,615,644	19,993,740
Current assets	14,551,483	1,700,368
	\$43,167,127	\$21,694,108

At December 31, changes in the fair value of investments resulted in an unrealized loss of \$1.0 million for 2004 and an unrealized loss of \$1.7 million for 2003.

Equity in pooled investments and U.S. government securities are reported at fair values based on quoted market prices for those or similar securities and are as follows at December 31:

	2004	2003
Restricted assets:		
Municipal Light & Power Bond		
Reserve Account:		
Equity in pooled investments	\$ 64,245,770	\$65,136,266
Bond proceeds and other:		
Equity in pooled investments	3,968,999	6,057,692
	68,214,769	71,193,958
Current assets:		
Equity in pooled investments	46,156,513	7,646,802
	\$114,371,282	\$78,840,760

4. ACCOUNTS RECEIVABLE

Accounts receivable at December 31 consist of:

	Retail Power	Wholesale Power	Fees and Other	Interfund	Due from Other Governments	Total
2004:						
Accounts receivable	\$ 60,641,402	\$ 26,453,326	\$ 7,394,914	\$ 20,729,775	\$ 9,513,245	\$ 124,732,662
Less allowance for doubtful accounts	(12,335,000)	(2,550,000)	(1,202,000)	-	-	(16,087,000)
	48,306,402	23,903,326	6,192,914	20,729,775	9,513,245	108,645,662
2003:						
Accounts receivable	\$ 59,257,341	\$ 23,897,296	\$ 5,125,240	\$ 1,458,279	\$ 5,481,358	\$ 95,219,514
Less allowance for doubtful accounts	(8,850,000)	(2,570,000)	(1,210,000)	-	-	(12,630,000)
	\$ 50,407,341	\$ 21,327,296	\$ 3,915,240	\$ 1,458,279	\$ 5,481,358	\$ 82,589,514

5. SHORT-TERM POWER CONTRACTS AND DERIVATIVE INSTRUMENTS

The Department enters into short-term forward contracts to purchase or sell energy. Under these forward contracts, the Department commits to purchase or sell a specified amount of energy at a specified time, or during a specified time in the future. Certain of the forward contracts are considered derivative instruments as they may be net settled without physical delivery. These derivative instruments, along with other short-term power transactions, are entered into solely for the purpose of managing the Department's resources to meet load requirements. Gains and losses

resulting from the fair valuation of the derivative instruments are deferred pursuant to SFAS No. 71 (see Notes 10 and 11). Power transactions in response to forecasted seasonal resource and demand variations require approval by the Department's Risk Management Committee. Fluctuations in annual precipitation levels and other weather conditions materially affect the energy output from the Department's hydroelectric facilities and some of its long-term purchased hydroelectric power agreements. Demand fluctuates with weather and local economic conditions. Accordingly, short-term power transactions required to manage resources to meet the Department's load and dispose of surplus energy may vary from year to year.

6. LONG-TERM AND SHORT-TERM DEBT

At December 31, the Department's long-term and short-term debt consisted of the following:

				2004	2003
LONG-TERM					
Prior Lien Bonds:					
		Fixed Rate	Year Due		
2004	ML&P Improvement and Refunding Revenue Bonds	3.000% to 5.250%	2029	\$ 284,855,000	\$ -
2003	ML&P Improvement and Refunding Revenue Bonds	4.000% to 6.000%	2028	241,935,000	251,850,000
2002	ML&P Refunding Revenue Bonds	3.000% to 4.500%	2014	80,195,000	85,275,000
2001	ML&P Improvements and Refunding Revenue Bonds	5.000% to 5.500%	2026	499,965,000	503,700,000
2000	ML&P Revenue Bonds	4.500% to 5.625%	2025	98,830,000	98,830,000
1999	ML&P Revenue Bonds	5.000% to 6.000%	2024	19,750,000	158,000,000
1998B	ML&P Revenue Bonds	4.750% to 5.000%	2024	87,385,000	90,000,000
1998A	ML&P Refunding Revenue Bonds	4.500% to 5.000%	2020	101,380,000	102,120,000
1997	ML&P Revenue Bonds	5.000% to 5.125%	2022	28,100,000	29,070,000
1996	ML&P Revenue Bonds	5.250% to 5.625%	2021	2,055,000	28,230,000
1995B	ML&P Revenue Bonds	4.050% to 4.800%	2005	456,000	456,000
1995A	ML&P Revenue Bonds	5.000% to 5.700%	2020	-	53,875,000
1994	ML&P Revenue Bonds	6.00%	2004	-	3,450,000
1993	ML&P Revenue and Refunding Revenue Bonds	2.200% to 5.500%	2018	-	20,215,000
				1,444,906,000	1,425,071,000
Subordinate Lien Bonds:					
1996	ML&P Adjustable Rate Revenue Bonds	variable rates	2021	17,740,000	18,455,000
1993	ML&P Adjustable Rate Revenue Bonds	variable rates	2018	16,900,000	17,800,000
1991B	ML&P Adjustable Rate Revenue Bonds	variable rates	2016	15,100,000	16,500,000
1991A	ML&P Adjustable Rate Revenue Bonds	variable rates	2016	25,000,000	25,000,000
1990	ML&P Adjustable Rate Revenue Bonds	variable rates	2015	17,600,000	18,700,000
				92,340,000	96,455,000
City of Seattle:					
2003	Note payable	5.000%	2005	-	5,158,625
Total long-term debt				\$1,537,246,000	\$1,526,684,625
SHORT-TERM					
City of Seattle:					
2003	Note payable	5.000%	2005	\$ 5,158,625	\$ -
2003	Short-term borrowings-City of Seattle	variable	2004	-	70,000,000
Total short-term debt				\$ 5,158,625	\$ 70,000,000

The Department had the following activities in long-term debt during 2004:

	Balance at December 31, 2003	Additions	Reductions	Balance at December 31, 2004	Current Portion
Prior Lien Bonds	\$1,425,071,000	\$284,855,000	\$(265,020,000)	\$1,444,906,000	\$60,151,000
Subordinate Lien Bonds	96,455,000	-	(4,115,000)	92,340,000	4,445,000
Note payable-City of Seattle	5,158,625	-	(5,158,625)	-	5,158,625
	\$1,526,684,625	\$284,855,000	\$(274,293,625)	\$1,537,246,000	\$69,754,625

Prior Lien Bonds – In December 2004, the Department issued \$284.9 million in ML&P Improvement and Refunding Revenue Bonds that bear interest at rates ranging from 3.00% to 5.25% and mature serially from August 1, 2005 through 2025. Term bonds mature on August 1, 2029. The arbitrage yield for the 2004 bonds is 4.055%. Arbitrage yield, when used in computing the present worth of all payments of principal and interest on the bonds, produces an amount equal to the issue price of the bonds. Proceeds were used to finance certain capital improvements and conservation programs and to defease certain outstanding 1995A, 1996, and 1999 series prior lien bonds. The debt service on the improvement and refunding bonds requires a cash flow of \$448.3 million, including \$163.4 million in interest. The difference between the cash flows required to service the old and the new debt and complete the refunding totaled \$22.4 million, and the aggregate economic gain totaled \$12.1 million at net present value. The loss on refunding was \$19.7 million and is being amortized using the effective interest method over the life of the refunded bonds. The unamortized balance of the loss on refunding at December 31, 2004 was \$19.6 million.

In August 2003, the Department issued \$251.8 million in ML&P Improvement and Refunding Revenue Bonds that bear interest at rates ranging from 4.00% to 6.00% and mature serially from November 1, 2004 through 2025. Term bonds mature on November 1, 2028. The arbitrage yield for the 2003 bonds was 4.335%. Proceeds were used to finance certain capital improvements and conservation programs and to defease certain outstanding 1993 series prior lien bonds. The debt service on the improvement and refunding bonds requires a cash flow of \$393.4 million, including \$141.5 million in interest. The difference between the cash flows required to service the old and the new debt and complete the refunding totaled \$5.8 million, and the aggregate economic gain totaled \$5.4 million at net present value. The loss on refunding was \$15.0 million and is being amortized using the effective interest method over the life of the new bonds. The unamortized balance of the loss on refunding at December 31, 2004 and 2003 was \$11.8 million and \$14.0 million, respectively.

Future debt service requirements for prior lien bonds are as follows:

Year Ending December 31	Principal Redemptions	Interest Requirements	Total
2005	\$ 60,151,000	\$ 66,925,532	\$ 127,076,532
2006	58,660,000	69,569,752	128,229,752
2007	61,450,000	66,766,240	128,216,240
2008	64,620,000	63,596,352	128,216,352
2009	67,990,000	60,235,645	128,225,645
2010 - 2014	345,015,000	250,039,501	595,054,501
2015 - 2019	351,425,000	159,859,491	511,284,491
2020 - 2024	317,000,000	74,062,462	391,062,462
2025 - 2029	118,595,000	10,413,599	129,008,599
	\$1,444,906,000	\$821,468,574	\$2,266,374,574

The Department is required by ordinance to fund reserves for prior lien bond issues in an amount equal to the lesser of (a) the maximum annual debt service on all bonds secured by the reserve account or (b) the maximum amount permitted by the Internal Revenue Code ("IRC") of 1986 as a reasonably required reserve or replacement fund. Upon issuance of the 2004 bonds, the maximum annual debt service on prior lien bonds was \$128.2 million due in 2006. The maximum amount permitted by the IRC remained at \$113.3 million. At December 31, 2004 and 2003, the balance in the reserve account was \$87 million and \$79.6 million at fair value, respectively. The reserve must be fully funded by December 1, 2009.

In addition to the 2004 and 2003 refunding revenue bonds, the Department has previously issued several refunding revenue bonds for the purpose of defeasing certain outstanding prior lien bonds. Refunding revenue bonds were issued in 2002, 2001, 1998, and 1993. Proceeds from the refunding bonds were placed in separate irrevocable trusts to provide for all future debt service payments on the bonds defeased. Accordingly, neither the assets of the respective trust accounts nor the liabilities for the defeased bonds are reflected in the Department's financial statements. The bonds defeased in 2003 and 2002 were called in full on November 1, 2003. The bonds defeased in 1998 were called in full on July 1, 2004. The bonds defeased in 2004 and 1993 had outstanding principal balances of \$215.3 million and \$2.2 million, respectively, as of December 31, 2004. Funds held in the respective trust accounts on December 31, 2004, are sufficient to service and redeem the defeased bonds.

Subordinate Lien Bonds – The Department is authorized to issue a limited amount of adjustable rate revenue bonds, which are subordinate to prior lien bonds with respect to claim on revenues. Subordinate lien bonds may be issued to the extent that the new bonds will not cause the aggregate principal amount of such bonds then outstanding to exceed the greater of \$70 million or 15% of the aggregate principal amount of prior lien bonds then outstanding. Subordinate bonds may be remarketed daily, weekly, short-term, or long-term and may be converted to prior lien bonds when certain conditions are met.

Future debt service requirements on the subordinate lien bonds, based on 2004 end of year actual interest rates ranging from 1.12% to 2.35% through year 2021, are as follows:

Year Ending December 31	Principal Redemptions	Interest Requirements	Total
2005	\$ 4,445,000	\$ 1,393,100	\$ 5,838,100
2006	4,775,000	1,358,954	6,133,954
2007	5,305,000	1,277,524	6,582,524
2008	5,840,000	1,189,644	7,029,644
2009	6,270,000	1,091,626	7,361,626
2010 - 2014	39,125,000	3,791,621	42,916,621
2015 - 2019	23,815,000	962,874	24,777,874
2020 - 2021	2,765,000	53,469	2,818,469
	\$92,340,000	\$11,118,812	\$103,458,812

Revenue Anticipation Notes – In November 2002, the Department issued \$125.0 million in ML&P Revenue Anticipation Notes (“RANs”) at an interest rate of 2.50% with an arbitrage yield of 1.49%. The 2002 RANs matured in November 2003.

In March 2001, the Department issued \$182.2 million in ML&P RANs. \$136.7 million of the 2001 RANs had an interest rate of 4.50%, and \$45.5 million had an interest rate of 5.25%. The arbitrage yield of the 2001 RANs was 3.75%. The 2001 RANs matured in March 2003.

Both RANs issued were special limited obligations of the Department payable from and secured by gross revenues. Proceeds were used to finance operating expenses for each respective year. The RANs were on a lien subordinate to prior lien bonds and subordinate lien bonds.

Fair Value – The fair value of the Department’s bonds and RANs is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Department for debt of the same

remaining maturities. Carrying amounts and fair values are as follows at December 31:

	2004		2003	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt:				
Prior lien bonds	\$1,485,232,262	\$1,530,156,972	\$1,453,551,784	\$1,528,392,143
Subordinate lien bonds	92,116,635	92,340,000	96,213,769	96,455,000
	\$1,577,348,897	\$1,622,496,972	\$1,549,765,553	\$1,624,847,143

Amortization – Bond issue costs, discounts, and premiums are amortized using the effective interest method over the term of the bonds.

The excess of costs incurred over the carrying value of bonds refunded on early extinguishment of debt is amortized as a component of interest expense using both the straight-line and effective interest methods over the terms of the issues to which they pertain. Deferred refunding costs amortized to interest expense totaled \$4.7 million in 2004 and \$5.8 million in 2003. Deferred refunding costs in the amount of \$53.5 million and \$38.5 million are reported as a component of long-term debt in the 2004 and 2003 balance sheets, respectively.

Note Payable – In 2003, the Department purchased real estate property for a potential future substation from the City of Seattle Department of Parks and Recreation at a price of \$5.6 million, financed with a note payable to the Department of Parks and Recreation at 5%, maturing in July 2005. Debt service requirements remaining for this note payable are:

Year Ending December 31	Principal Redemptions	Interest Requirements	Total
2005	\$5,158,625	\$257,932	\$5,416,557

Short-Term Borrowings – In late December 2001, the City of Seattle authorized an interfund loan (note payable) to the Department from the City’s Consolidated (Residual) Cash Portfolio in an amount up to \$110.0 million, of which \$100 million was outstanding as of December 31, 2001. The purpose of the note payable was for working capital and it was due on or before March 31, 2003. The loan was repaid on January 1, 2002 and was carried as a negative operating cash balance during part of 2002. The loan was repaid in November 2002 with the 2002 RAN proceeds and was carried as a negative operating cash balance until maturity in March 2003.

In 2003, Ordinance No. 121154 provided for a new interfund loan or note payable up to \$50 million for working capital repayable on or before August 31, 2003. The same ordinance authorized an additional interfund loan up to

\$100 million beginning October 31, 2003 and expiring in December 31, 2004. The amount outstanding as of December 31, 2003 was \$70 million. The interest rate for the note payable for each month during 2004 and 2003 was equal to the rate of return earned for each respective month by the City's Consolidated (Residual) Cash Portfolio. The 2003 note payable was carried as a negative operating cash balance until the cash balance was restored from operations in May 2004.

7. SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM

The Seattle City Employees' Retirement System ("SCERS") is a single-employer defined benefit, public employee retirement system, covering employees of the City and administered in accordance with Chapter 41.28 of the Revised Code of Washington and Chapter 4.36 of the Seattle Municipal Code. SCERS is a pension trust fund of the City.

All employees of the City are eligible for membership in SCERS with the exception of uniformed police and fire personnel who are covered under a retirement system administered by the state of Washington. Employees of Metro and the King County Health Department who established membership in SCERS when these organizations were City departments were allowed to continue their SCERS membership. As of January 1, 2004, there were 4,876 retirees and beneficiaries receiving benefits and 8,382 active members of SCERS. In addition, 1,560 vested terminated employees were entitled to future benefits.

SCERS provides retirement, death, and disability benefits. Retirement benefits vest after five years of credited service, while death and disability benefits vest after 10 years of service. Retirement benefits are calculated as 2% multiplied by years of creditable service, multiplied by average salary, based on the highest 24 consecutive months, excluding overtime. The benefit is actuarially reduced for early retirement. Future increases in

the cost-of-living adjustments are available to current and future retired members only if SCERS attains at least a 95% funding level.

Actuarially recommended contribution rates both for members and for the employer were 8.03% of covered payroll during 2004 and 2003.

Under the authority of the state and City, SCERS operates a securities lending program, and there were transactions during 2004 and 2003. SCERS has had no losses resulting from a default, and SCERS did not have negative credit exposure at December 31, 2004 or 2003.

SCERS issues stand-alone financial statements that may be obtained by writing to the Seattle City Employees' Retirement System, 801 Third Avenue, Suite 300, Seattle, Washington 98104; telephone: (206) 386-1292.

Employer contributions for the City were \$36.7 million and \$34.2 million in 2004 and 2003, respectively, and the annual required contributions were made in full.

Actuarial Data

Valuation date	January 1, 2004
Actuarial cost method	Entry age
Amortization method	Level percent
Remaining amortization period	30.2 years
Amortization period	Open
Asset valuation method	Market

Actuarial Assumptions*	Percentage
Investment rate of return	7.75%
Projected general wage increases	4.00
Cost-of-living year-end bonus dividend	0.67

*Includes price inflation at 3.5%.

Schedule of funding progress for SCERS (dollar amounts in millions):

Actuarial Valuation Date January 1,	Actuarial Value of Assets (a)	Actuarial Accrued Liabilities ("AAL") (b)	Unfunded AAL ("UAAL") (b-a) (2)	Funding Ratio (a/b)	Covered Payroll (c)	UAAL or (Excess) as a Percentage of Covered Payroll ((b-a)/c)
2001 ⁽⁴⁾	\$ 1,493.1	\$ 1,490.3	\$ (2.8)	100.2 %	\$ 405.0	(0.7)%
2002	1,383.7	1,581.4	197.7	87.5	405.1	48.8
2004	1,527.5	1,778.9	251.4	85.9	424.7	59.2

(1) Actuarial present value of benefits less actuarial present value of future normal costs based on entry age actuarial cost method.

(2) Actuarial accrued liabilities less actuarial value of assets; funding excess if negative.

(3) Covered payroll includes compensation paid to all active employees on which contributions are calculated.

(4) Information for January 1, 2001 was provided by an actuarial study, rather than a full valuation.

8. DEFERRED COMPENSATION

The Department's employees may contribute to the City's Voluntary Deferred Compensation Plan (the "Plan"). The Plan, available to City employees and officers, permits participants to defer a portion of their salary until future years. The Plan administrator is Prudential Retirement effective 2004 and was Fidelity Investments in 2003. The deferred compensation is paid to participants and their beneficiaries upon termination, retirement, death, or unforeseeable emergency.

Effective January 1, 1999, the Plan became an eligible deferred compensation plan under Section 457 of the IRC of 1986, as amended, and a trust exempt from tax under IRC Sections 457(g) and 501(a). The Plan is operated for the exclusive benefit of participants and their beneficiaries. No part of the corpus or income of the Plan shall revert to the City or be used for, or diverted to, purposes other than the exclusive benefit of participants and their beneficiaries.

The Plan is not reported in the financial statements of the City or the Department.

It is the opinion of the City's legal counsel that the City has no liability for investment losses under the Plan. Participants direct the investment of their money into one or more options provided by the Plan and may change their selection from time to time. By enrolling in the Plan, participants accept and assume all risks inherent in the Plan and its administration.

9. LONG-TERM PURCHASED POWER, EXCHANGES, AND TRANSMISSION

Bonneville Power Administration – The Department purchases electric energy from the U.S. Department of Energy, Bonneville Power Administration ("Bonneville") under the Block and Slice Power Sales Agreement, a 10-year contract that expires September 30, 2011. The agreement provides a block of power shaped to the Department's monthly net requirements, defined as the difference between projected monthly load and firm resources available

to serve that load. Additional amounts of power will be purchased and received throughout the term of the contract under the Slice portion of the contract. The terms of the Slice product specify that the Department will receive a fixed percentage (4.6676%) of the actual output of the Federal Columbia River Power System. The cost of Slice power is based on the Department's same percentage (4.6676%) of the expected costs of the system and is subject to true-up adjustments based on actual costs. Amendments to the contract through September 2003 provide that Bonneville will pay the Department for energy savings realized through specified programs.

Lucky Peak – In 1984, the Department entered into a purchase power agreement with four irrigation districts to acquire 100% of the net output of a hydroelectric facility that began commercial operation in 1988 at the existing Army Corps of Engineers Lucky Peak Dam on the Boise River near Boise, Idaho. The irrigation districts are owners and license holders of the project, and the FERC license expires in 2030. The agreement, which expires in 2038, obligates the Department to pay all ownership and operating costs, including debt service, over the term of the contract, whether or not the plant is operating or operable. To properly reflect its rights and obligations under this agreement, the Department includes as an asset and liability the outstanding principal of the project's debt, net of the balance in the project's reserve account.

British Columbia-Ross Dam – In 1984, an agreement was reached between the Province of British Columbia and the City under which British Columbia will provide the Department with power equivalent to that which would result from an addition to the height of Ross Dam. The power is to be received for 80 years, and delivery of power began in 1986. In addition to the direct costs of power under the agreement, the Department incurred costs of approximately \$8.0 million in prior years related to the proposed addition and was obligated to help fund the Skagit Environmental Endowment Commission through four annual \$1 million payments. These costs were deferred and are being amortized to purchased power expense over 35 years.

Power received and expenses under these and other long-term purchased power agreements are as follows:

Year Ending December 31	2004 Expense	2003 Expense	2004 aaMW*	2003 aaMW*
Bonneville Block	\$ 33,696,129	\$ 38,102,290	392.8	390.9
Bonneville Slice	97,278,651	118,985,217	137.8	147.1
	130,974,780	157,087,507	530.6	538.0
Lucky Peak	16,783,152	12,239,433	31.3	33.4
British Columbia–				
Ross Dam	13,370,826	13,358,439	34.8	36.0
City of Klamath Falls	42,022,348	36,280,909	81.8	74.7
State Line Wind	18,254,080	12,876,636	39.7	24.7
Pend Oreille County				
Public Utility District	1,500,570	1,278,453	6.7	5.4
Grant County Public				
Utility District	2,450,048	2,611,925	36.0	35.5
Grand Coulee Project				
Hydro Authority	5,679,435	4,830,362	28.9	26.9
Bonneville South Fork				
Tolt billing credit	(3,047,299)	(2,965,271)	-	-
British Columbia–Boundary				
Encroachment	(1,197,160)	(685,118)	1.5	1.6
Exchange energy	2,358,648	2,806,252	12.4	12.4
Other	266,932	785,684	0.7	4.6
	\$229,416,360	\$240,505,211	804.4	793.2

*Average annual megawatt hours (aaMW)

Estimated Future Payments Under Purchased Power and Transmission Contracts – The Department’s estimated payments under its contracts with Bonneville, the public utility districts, irrigation districts, Lucky Peak Project, British Columbia - High Ross Agreement, Klamath Falls, PacifiCorp Power Marketing, Inc. (now PPM Energy) and PacifiCorp for wind energy and net integration and exchange services, and for transmission with Bonneville and others for the period from 2005 through 2065, undiscounted, are:

Year Ending December 31,	Estimated Payments
2005	\$ 279,466,548
2006	292,037,107
2007	278,744,203
2008	276,267,367
2009	263,836,954
2010 - 2014 ⁽¹⁾	824,988,890
2015 - 2019	515,466,992
2020 - 2024	395,186,504
2025 - 2029 ⁽²⁾	77,723,305
2030 - 2034	34,219,347
2035 - 2039	29,321,049
2040 - 2065	22,938,642
	\$3,290,196,908

(1) Bonneville Block and Slice contract expires September 30, 2011.

(2) Bonneville transmission contract expires July 31, 2025.

The effects of a proposed Northwest Regional Transmission Organization and other changes that could occur to transmission as a result of FERC’s proposed Standard Market Design are not known and are not reflected in the estimated future payments.

Payments under these long-term power contracts totaled \$234.6 million and \$251.8 million in 2004 and 2003, respectively. Payments under these transmission contracts totaled \$30.7 million and \$30.0 million in 2004 and 2003, respectively.

10. OTHER ASSETS

Other assets comprise deferred energy management costs and other deferred charges. Deferred energy management costs-net represent programmatic conservation costs. Seattle City Council-passed resolutions authorize the debt financing and deferral of programmatic conservation costs not funded by third parties and incurred by the Department. These costs are to be amortized to expense over 20 years.

Deferred power costs incurred for short-term wholesale power purchases during 2001 were recovered through rates at \$8.3 million per month through 2004, pursuant to SFAS No. 71 and Ordinance 120385.

Other deferred charges and assets-net consist of the following at December 31:

	2004	2003
Unrealized losses from fair valuations of:		
Short-term forward purchases of		
electric energy	\$ 269,411	\$ 163,664
Bonneville Slice contract		
true-up payment	2,070,957	1,898,666
Puget Sound Energy interconnection		
and substation	1,719,456	1,862,370
Studies, surveys, and investigations	1,680,622	533,435
Skagit Environmental Endowment	1,880,200	1,997,712
Endangered Species Act	1,511,438	1,341,435
Real estate and conservation loans		
receivable	414,608	473,169
Unamortized debt expense	6,169,024	5,315,921
General work in process to be billed	688,411	1,035,352
Other	275,650	1,349,997
	\$16,679,777	\$15,971,721

Unamortized charges for the deferral of contractual payments pursuant to the High Ross Agreement will be amortized between 2021 and 2035. The remaining components of other assets, excluding billable work in progress, are being amortized to expense over four to 36 years.

11. DEFERRED CREDITS

Deferred credits consist of the following at December 31:

	2004	2003
Bonneville conservation augmentation	\$26,795,501	\$24,200,537
Bonneville Slice true-up	-	6,348,625
Unrealized gains from fair valuation of		
short-term forward sales of electric energy	384,255	2,115,376
Levelized lease payments for		
Seattle office	483,639	919,404
Deferred capital fees	1,590,580	1,420,338
Customer deposits-sundry sales	2,749,414	1,107,614
Deferred grants	-	571,624
Deferred revenues-streetlight		
administration	673,822	-
Other	252,491	286,691
	\$32,929,702	\$36,970,209

12. PROVISION FOR INJURIES AND DAMAGES

The Department is self-insured for casualty losses to its property, including for terrorism, environmental cleanup, and certain losses arising from third-party damage claims. The Department establishes liabilities for claims based on estimates of the ultimate cost of claims. The length of time for which such costs must be estimated varies depending on the nature of the claim. Actual claims costs depend on such factors as inflation, changes in doctrines of legal liability, damage awards, and specific incremental claim adjustment expenses. Claims liabilities are recomputed periodically using actuarial and statistical techniques to produce current estimates, which reflect recent settlements, claim frequency, industry averages, City-wide cost allocations, and economic and social factors. Liabilities for lawsuits, claims, and workers' compensation were discounted over a period of 15 to 17 years in 2004 and 2003 at the City's average annual rate of return on investments, which was 2.338% in 2004 and 3.161% in 2003. Liabilities for environmental cleanup and for casualty losses to the Department's

property do not include claims that have been incurred but not reported and are not discounted due to uncertainty with respect to regulatory requirements and settlement dates, respectively.

The Lower Duwamish Waterway was designated a federal Superfund site by the Environmental Protection Agency ("EPA") in 2001 for contaminated sediments. The City of Seattle is one of four parties who signed an Administrative Order on Consent with the EPA and State Department of Ecology to conduct a remedial investigation/feasibility study to prepare a site remedy. The Department is considered a potentially responsible party for contamination in the Duwamish River due to land ownership or use of property located along the river. The estimated liabilities recorded related to this site totaled \$5.3 million and \$5.7 million for 2004 and 2003, respectively.

The schedule below presents the changes in the provision for injuries and damages:

	2004	2003
Unpaid claims at January 1	\$13,657,541	\$10,476,242
Payments	(2,262,497)	(2,391,275)
Incurred claims	4,210,638	5,572,574
Unpaid claims at December 31	\$15,605,682	\$13,657,541

The provision for injuries and damages is included in current and noncurrent liabilities as follows:

	2004	2003
Noncurrent liabilities	\$ 9,507,214	\$10,491,426
Accounts payable and other	6,098,468	3,166,115
	\$15,605,682	\$13,657,541

13. COMMITMENTS AND CONTINGENCIES

Operating Leases - In December 1994, the City entered into an agreement on behalf of the Department for a 10-year lease of office facilities in downtown Seattle commencing February 1, 1996. In early 1996, the City purchased the building in which these facilities are located, thus becoming the Department's lessor. In addition, the Department leases equipment and smaller facilities for office purposes through long-term operating lease agreements. Expense under the leases totaled \$3.9 million and \$3.8 million in 2004 and 2003, respectively.

Minimum payments under the operating leases are:

Year Ending December 31	Minimum Payments
2005	\$3,762,707
2006	502,194
2007	118,411
2008	90,751
2009	4,409
	<u>\$4,478,472</u>

Skagit and South Fork Tolt Licensing Mitigation - In 1995, FERC issued a license for operation of the Skagit hydroelectric facilities through April 30, 2025. On July 20, 1989, the FERC license for operation of the South Fork Tolt hydroelectric facilities through July 19, 2029 became effective. As a condition for both of these licenses, the Department has taken and will continue to take required mitigating measures. Total Skagit mitigation costs from the effective date until expiration of the Federal operating license were estimated at December 31, 2004 to be \$122.3 million, of which \$76.2 million had been expended; and for South Fork Tolt, \$4.1 million and \$1.1 million, respectively. Capital improvement, other deferred costs, and operations and maintenance costs are included in the estimates for both licenses.

Application Process for New Boundary License – The Department's FERC license for the Boundary Project expires on September 30, 2011. The Department intends to submit an application for a new license by October 2009. A new license may require additional mitigation efforts for endangered species, including water quality standards, the full extent of which is not known at this time. Application process costs are estimated at \$43.3 million; as of December 31, 2004, \$3.9 million had been expended and deferred.

2005 Capital Program – The estimated financial requirement for the Department's 2005 program for capital improvement, conservation, and deferred operations and maintenance including required expenditures on assets owned by others is \$165.5 million, and the Department has substantial contractual commitments relating thereto.

Project Impact Payments – Effective November 1999, the Department committed to pay a total of \$11.6 million and \$7.8 million over 10 years ending in 2008 to Pend Oreille County and Whatcom County, respectively, for impacts on county governments from the operations of the Department's hydroelectric projects. The payments compensate the counties, and certain school districts and towns located in these counties, for loss of revenues and additional financial burdens associated with the projects. The Boundary Project located on the Pend Oreille River affects Pend Oreille County, and Skagit River hydroelectric projects affect Whatcom County. The combined impact compensation, including annual inflation factor of 3.1%, and retroactive payments totaled \$1.2 million and \$1.1 million to Pend Oreille County in 2004 and 2003, respectively, and \$0.8 million to Whatcom County in each year.

Endangered Species – Several fish species that inhabit waters where hydroelectric projects are owned by the Department or where the Department purchases power have been listed under the Endangered Species Act as threatened or endangered. On the Columbia River system,

the National Oceanographic Atmospheric Administration Fisheries has developed a broad species recovery plan for listed salmon and steelhead, including recommendations for upstream and downstream fish passage requirements. These requirements include minimum flow targets for the entire Columbia Basin designed to maximize the survival of migrating salmon and steelhead. As a result, the Department's power generation at its Boundary Project is reduced in the fall and winter when the region experiences its highest sustained energy demand. The Boundary Project's firm capability is also reduced.

Other Department-owned projects are not affected by the Columbia River. In Puget Sound, both bull trout and chinook salmon have been listed as threatened, and a draft recovery plan and proposed critical habitat for Puget Sound bull trout was issued by the U.S. Fish and Wildlife Service in July 2004. Bull trout are present in the waters of Skagit, Tolt, and Cedar River projects and chinook salmon occur downstream. While it is unknown how other listings will affect the Department's hydroelectric projects and operations, the Department is carrying out an ESA Early Action program in cooperation with agencies, tribes, local governments, and salmon groups that will assist in the recovery of bull trout and chinook salmon on the Skagit and Tolt. On the Cedar, the Department's activities are covered by a Habitat Conservation Plan that authorizes operations with regard to all listed species. Hydroelectric projects must also satisfy the requirements of the Clean Water Act in order to obtain a FERC license.

Streetlight Litigation – In November 2003, the Washington Supreme Court ruled that a 1999 ordinance related to inclusion of streetlight costs in the general rate base for Seattle and Tukwila customers was unlawful. As a result of this decision, the Department resumed billing the City of Seattle for streetlight costs. On May 21, 2004, trial court proceedings resulted in a ruling that the Department be required to refund the amount collected from ratepayers since December 1999 attributable to streetlight costs. The ruling

also provided that the City of Seattle general fund will have to repay the Department for the streetlight costs that would have been billed over the same period.

On October 8, 2004, a partial judgment in the streetlight litigation was entered in Superior Court in King County. The judgment included a Remedy Stipulation that required the City's general fund to pay \$23.9 million to the Department, an amount which represents billings for streetlight services that should have been made to the City from December 1999 through November 2003. The \$23.9 million payment also included compensation to the Department for "loss of use" of funds, calculated as a percentage of the difference between the amount that should have been billed to the City and the amount paid by ratepayers for streetlight services. The City's general fund will pay the amount due on an installment schedule through April 2005. In 2004 the Department received payments totaling \$6.2 million from the City. An additional \$6.2 million was received in January 2005. The final payment of \$12.9 million is due on April 1, 2005.

The Department will refund to ratepayers in Seattle and Tukwila the amount of streetlight costs billed to them from January 2000 through November 2003. Gross refunds are estimated to be \$21.5 million, plus \$2.6 million to compensate ratepayers for loss of use of funds. Plaintiff attorney fees totaling \$3.3 million and \$0.7 million in administrative costs related to the refunds will be deducted from the gross refund amount, leaving \$20.0 million to be refunded to ratepayers. Refunds to current customers will be made through a credit on their electric utility bills. Currently inactive customers who received one or more billings during the period from January 2000 through November 2003 will receive refund checks on application to the Department.

The Department recorded the \$2.4 million difference between the \$23.9 million in payments from the City of Seattle and the \$21.5 million in customer refunds as other operating revenues in 2004.

The partial judgment entered on October 8, 2004 in the streetlight litigation also found that the City had inappropriately allocated to the Department

certain central costs and ordered the City to refund \$1.0 million in such costs, including an allowance for loss of use, to the Department. Certain features of the City's One Percent for Art ordinance, as applied to the Department, were also found to be illegal. The City has filed an appeal relative to the One percent for Art finding.

Oregon Tax Claim – In 2001, the Oregon Department of Revenue assessed the Department, along with another northwest municipal utility, an *ad valorem* property tax for each utility's respective interest in the Capacity Ownership Agreements with BPA for the Pacific Northwest Third AC Intertie transmission line. The assessment was for tax year 2001 with a retroactive "omitted property" assessment for years 1997 through 2000. The Oregon Court bifurcated the issues for trial into two phases: (a) liability for taxes, and (b) valuation method. In January 2004, the Court issued a ruling in favor of the cities for the "omitted property" claims, eliminating the assessments prior to 2001. In June 2004, as a result of changes to the Oregon Tax Code, a new "omitted assessment" was made for years 1999 and 2000. Trial is expected in 2005 for the new assessment matter.

The Department has retained legal counsel in Portland, Oregon to represent its interest in the Oregon courts. Any decision by the Oregon Tax Court in this matter is likely to be appealed to the Oregon Supreme Court. Because of the federal constitutional issues involved in this case, an appeal to the U.S. Supreme Court is also possible. Final resolution of the case in the near future is unlikely. Estimated exposure is approximately \$500,000 per year, for the years 2001 through 2004. Due to the uncertainty of the effect of this litigation on the Department's financial position, the Department has not reserved an amount for a potential adverse judgment in these financial statements.

Other Contingencies – In the normal course of business, the Department has various other legal claims and contingent matters outstanding. The Department believes that any ultimate liability arising from these actions will not have a material adverse impact on the Department's financial position or operations.

FINANCIAL SUMMARY (Unaudited)

Years ended December 31,	2004	2003	2002	2001	2000
BALANCE SHEETS					
Assets					
Utility plant, net	\$ 1,408,183,614	\$ 1,390,857,362	\$ 1,345,435,582	\$ 1,300,035,639	\$ 1,242,167,417
Capitalized purchased power commitment	35,662,876	45,130,152	50,279,621	56,947,942	65,855,587
Restricted assets	123,718,739	159,432,145	240,881,958	243,432,809	73,780,909
Current assets	252,414,183	178,234,062	190,990,153	155,835,416	146,129,452
Other assets	206,203,653	286,898,970	377,433,352	454,709,681	113,755,299
Total assets	\$ 2,026,183,065	\$ 2,060,552,691	\$ 2,205,020,666	\$ 2,210,961,487	\$ 1,641,688,664
Liabilities & Equity					
Long-term debt, net	\$ 1,459,292,622	\$ 1,462,609,162	\$ 1,365,447,879	\$ 1,683,202,477	\$ 1,023,192,505
Noncurrent liabilities	45,010,305	55,717,497	67,994,521	63,771,698	63,952,994
Current liabilities	185,063,263	215,129,588	452,101,465	143,606,465	179,361,400
Deferred credits	32,929,702	36,970,209	21,216,712	20,255,473	1,715,984
Equity	303,887,173	290,126,235	298,260,089	300,125,374	373,465,781
Total liabilities & equity	\$ 2,026,183,065	\$ 2,060,552,691	\$ 2,205,020,666	\$ 2,210,961,487	\$ 1,641,688,664
STATEMENTS OF REVENUES AND EXPENSES					
Operating Revenues					
Residential	\$ 199,218,447	\$ 199,071,882	\$ 211,964,191	\$ 178,129,446	\$ 148,343,023
Non-residential	376,864,821	352,045,349	351,755,083	299,379,093	239,958,182
Unbilled revenue - net change	608,976	1,115,683	(1,287,056)	25,928,733	3,277,080
Total retail power revenues	576,692,244	552,232,914	562,432,218	503,437,272	391,578,285
Short-term wholesale power revenues ^{A, C}	163,264,753	137,650,966	102,082,572	73,899,346	99,168,112
Other power-related revenues ^A	20,027,768	34,082,244	20,385,528	44,303,333	11,101,230
Other	17,933,824	15,039,174	12,991,925	10,814,019	3,781,072
Total operating revenues	777,918,589	739,005,298	697,892,243	632,453,970	505,628,699
Operating Expenses					
Long-term purchased power ^A	229,416,360	240,505,211	222,943,642	151,213,357	79,304,610
Short-term wholesale power purchases ^{A, C}	49,714,393	24,232,720	12,440,806	218,781,800	212,402,254
Amortization of deferred power costs	100,000,000	100,000,000	100,000,000	-	-
Other power expenses	7,074,410	21,139,577	8,147,996	16,143,942	5,504,322
Generation	20,283,509	20,210,903	18,546,296	17,012,159	25,665,927
Transmission ^A	36,282,986	34,511,283	35,352,620	25,820,801	21,726,234
Distribution	40,972,862	39,116,032	37,649,578	38,122,827	34,523,307
Customer service	33,680,968	31,068,350	27,566,006	27,539,641	22,179,214
Conservation	11,237,221	11,014,634	9,514,572	8,887,010	6,972,547
Administrative and general	46,042,690	47,392,441	40,315,378	40,030,657	37,020,250
Taxes	61,444,670	61,606,324	60,173,889	52,565,660	42,860,055
Depreciation	73,852,844	69,270,029	66,485,780	61,538,960	55,498,917
Total operating expenses	710,002,913	700,067,504	639,136,563	657,656,814	543,657,637
Net operating income (loss)	67,915,676	38,937,794	58,755,680	(25,202,844)	(38,028,938)
Gain on sale of Centralia steam plant	-	-	-	-	29,639,799
Other income (expense), net	1,805,246	36,192	357,968	(1,048,013)	(240,039)
Investment income	2,481,150	3,813,194	10,110,004	13,275,220	9,753,106
Total operating and other income (loss)	72,202,072	42,787,180	69,223,652	(12,975,637)	1,123,928
Interest Expense					
Interest expense	77,323,512	78,272,394	84,933,182	79,584,722	53,651,607
Amortization of debt expense	2,481,087	3,120,011	2,717,316	1,786,694	5,054,837
Interest charged to construction	(3,499,700)	(4,337,717)	(3,592,785)	(5,710,936)	(5,553,780)
Net interest expense	76,304,899	77,054,688	84,057,713	75,660,480	53,152,664
Fees, grants, and transfers ^B	17,863,765	26,133,654	12,968,776	15,295,710	-
Net income (loss)	\$ 13,760,938	\$ (8,133,854)	\$ (1,865,285)	\$ (73,340,407)	\$ (52,028,736)

^A Beginning in 2001, wholesale power and power-related sales have been recorded as operating revenues. Prior to 2001, these sales were recorded as offsets to power and transmission expenses. Amounts for 2000 were reclassified to conform to the new presentation.

^B Fees, grants, and transfers were reported as nonoperating revenues beginning in 2001 due to the adoption of GASB Statement No. 33. Prior to the implementation of this standard, capital fees from private sources were reported as a component of equity as contributions in aid of construction, while grants and transfers were reported as offsets to expenses.

^C Effective in 2003, wholesale power sales and purchases that are bookouts are reported on a net basis due to the implementation of EITF-0311. Amounts for 2002 were reclassified and amounts for years prior to 2002 have not been reclassified.

Note: Certain other 2003 account balances have been reclassified to conform to the 2004 presentation.

INTEREST REQUIREMENTS AND PRINCIPAL REDEMPTION ON LONG-TERM DEBT (Unaudited)

As of December 31, 2004

Years	Prior Lien Bonds			Subordinate Lien Bonds		Note Payable - City of Seattle ^c	
	Principal	Interest	Total	Principal	Interest ^b	Principal	Interest
2005	\$ 60,151,000	\$ 66,925,532	\$ 127,076,532	\$ 4,445,000	\$ 1,393,100	\$5,158,625	\$257,932
2006	58,660,000	69,569,752	128,229,752 ^a	4,775,000	1,358,954	-	-
2007	61,450,000	66,766,240	128,216,240	5,305,000	1,277,524	-	-
2008	64,620,000	63,596,352	128,216,352	5,840,000	1,189,644	-	-
2009	67,990,000	60,235,645	128,225,645	6,270,000	1,091,626	-	-
2010	71,525,000	56,698,740	128,223,740	6,705,000	982,202	-	-
2011	66,995,000	53,286,445	120,281,445	7,345,000	890,708	-	-
2012	66,850,000	50,253,820	117,103,820	7,785,000	762,760	-	-
2013	69,585,000	46,714,939	116,299,939	8,425,000	640,241	-	-
2014	70,060,000	43,085,557	113,145,557	8,865,000	515,709	-	-
2015	70,515,000	39,405,533	109,920,533	9,410,000	381,285	-	-
2016	71,250,000	35,637,757	106,887,757	7,755,000	234,095	-	-
2017	71,410,000	31,819,770	103,229,770	2,600,000	165,931	-	-
2018	70,610,000	28,329,019	98,939,019	2,750,000	116,175	-	-
2019	67,640,000	24,667,412	92,307,412	1,300,000	65,388	-	-
2020	65,495,000	21,271,924	86,766,924	1,355,000	39,970	-	-
2021	63,605,000	17,989,443	81,594,443	1,410,000	13,498	-	-
2022	62,495,000	14,822,890	77,317,890	-	-	-	-
2023	62,235,000	11,596,849	73,831,849	-	-	-	-
2024	63,170,000	8,381,356	71,551,356	-	-	-	-
2025	47,625,000	5,255,548	52,880,548	-	-	-	-
2026	41,895,000	2,760,869	44,655,869	-	-	-	-
2027	12,340,000	1,412,950	13,752,950	-	-	-	-
2028	12,945,000	808,944	13,753,944	-	-	-	-
2029	3,790,000	175,288	3,965,288	-	-	-	-
Totals	\$ 1,444,906,000	\$ 821,468,574	\$ 2,266,374,574	\$ 92,340,000	\$ 11,118,812	\$5,158,625	\$257,932

^a Maximum debt service.

^b Based on actual interest rates in effect as of December 31, 2004 ranging from 1.12% to 2.35%.

^c Note Payable is for the purchase of real estate property from City of Seattle Department of Parks and Recreation.

DEBT SERVICE COVERAGE (Unaudited): Prior Lien Bonds

For the years ended December 31,

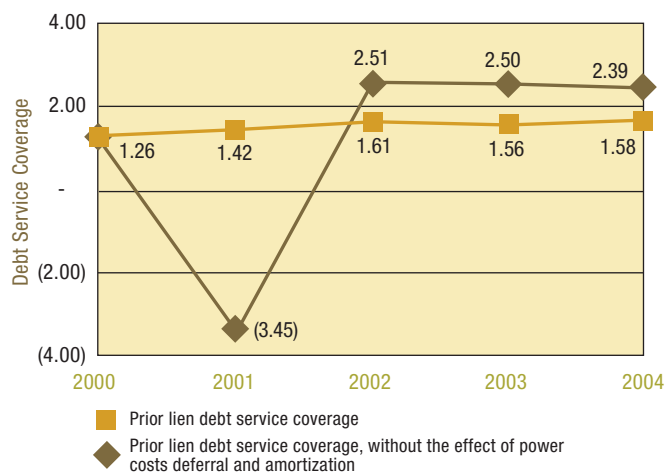
	Revenue Available for Debt Service	Debt Service Requirements	Debt Service Coverage	Debt Service Coverage ^c
2004	\$195,379,163 ^a	\$123,372,836	1.58	2.39
2003	164,482,458 ^a	105,719,316	1.56	2.50
2002	177,824,771 ^a	110,664,535	1.61	2.51
2001	87,604,015 ^b	61,552,303	1.42	(3.45)
2000	104,629,835	83,205,503	1.26	1.26

^a Operation and maintenance expenses in 2004, 2003 and 2002 include \$100 million each year for amortization of a portion of \$300 million in power costs deferred in 2001, reducing revenue available for debt service by that amount.

^b Operation and maintenance expenses in 2001 exclude \$300 million in deferred power costs, incurred in 2001, increasing revenue available for debt service by that amount.

^c Debt Service Coverage computation, without the deferral and subsequent amortization of \$300 million power costs in 2001, for informational purposes only.

Prior Lien Debt Service Coverage



STATEMENT OF LONG-TERM AND SHORT-TERM DEBT (Unaudited)

As of December 31, 2004

Name of Bond	When Due	Interest Rate (%)	Amount Issued	Amount Outstanding	Amount Due Within One Year	Accrued Interest
PRIOR LIEN BONDS						
Series 1995	2005	4.800	\$ 456,000	\$ 456,000	\$ 456,000	\$ 2,369
Series 1996	2005-2006	5.250	2,055,000	2,055,000	1,000,000	23,684
Series 1997	2005-2018	5.000	19,525,000	19,525,000	1,010,000	488,125
Series 1997	2019-2022	5.125	8,575,000	8,575,000		219,734
Series 1998	2005-2008	4.750	18,990,000	18,990,000	4,975,000	451,013
Series 1998	2009-2020	5.000	82,390,000	82,390,000		2,059,750
Series 1998	2005-2019	4.750	56,930,000	56,930,000	2,720,000	230,301
Series 1998	2021	4.875	11,250,000	11,250,000		46,708
Series 1998	2024	5.000	19,205,000	19,205,000		81,780
Series 1999	2006-2007	5.000	6,250,000	6,250,000		55,542
Series 1999	2008-2009	5.750	13,500,000	13,500,000		198,375
Series 2000	2006	5.000	2,875,000	2,875,000		12,242
Series 2000	2007	4.500	3,015,000	3,015,000		11,555
Series 2000	2008	5.250	3,150,000	3,150,000		14,084
Series 2000	2009-2011	5.500	10,505,000	10,505,000		49,206
Series 2000	2012-2018	5.625	32,325,000	32,325,000		154,854
Series 2000	2019	5.250	5,715,000	5,715,000		25,553
Series 2000	2020	5.300	6,015,000	6,015,000		27,150
Series 2000	2021	5.250	6,330,000	6,330,000		28,302
Series 2000	2022-2025	5.400	28,900,000	28,900,000		132,908
Series 2001	2005-2007	5.250	19,405,000	19,405,000	5,645,000	343,340
Series 2001	2008-2010	5.500	41,580,000	41,580,000		770,723
Series 2001	2010-2011	5.250	41,990,000	41,990,000		742,945
Series 2001	2012-2019	5.500	215,175,000	215,175,000		3,988,465
Series 2001	2020	5.000	22,165,000	22,165,000		373,499
Series 2001	2021-2026	5.125	159,650,000	159,650,000		2,757,491
Series 2002	2005-2007	4.000	30,975,000	30,975,000	12,450,000	105,519
Series 2002	2008	4.500	10,230,000	10,230,000		39,206
Series 2002	2009	4.375	10,725,000	10,725,000		39,961
Series 2002	2010	4.500	10,675,000	10,675,000		40,911
Series 2002	2011-2013	4.000	12,930,000	12,930,000		44,047
Series 2002	2014	4.125	4,660,000	4,660,000		16,371
Series 2003	2005	4.000	24,525,000	24,525,000	24,525,000	165,307
Series 2003	2006-2013	5.000	95,975,000	95,975,000		808,629
Series 2003	2014-2020	5.250	58,190,000	58,190,000		514,789
Series 2003	2021-2028	5.000	63,245,000	63,245,000		532,865

Continued on next page.

Name of Bond	When Due	Interest Rate (%)	Amount Issued	Amount Outstanding	Amount Due Within One Year	Accrued Interest
Series 2004	2005	3.000	7,370,000	7,370,000	7,370,000	5,492
Series 2004	2006-2010	4.000	32,750,000	32,750,000		32,301
Series 2004	2011	3.250	23,030,000	23,030,000		18,456
Series 2004	2012-2018	5.000	105,575,000	105,575,000		130,161
Series 2004	2019-2021	4.500	53,005,000	53,005,000		58,814
Series 2004	2022-2023	5.000	31,620,000	31,620,000		38,984
Series 2004	2024-2025	5.250	17,315,000	17,315,000		22,415
Series 2004	2026-2029	4.625	14,190,000	14,190,000		16,182
Total Prior Lien Bonds			\$ 1,444,906,000	\$ 1,444,906,000	\$ 60,151,000	\$ 15,920,105

SUBORDINATE LIEN BONDS

Series 1990	2003-2015	0.750-1.200 ^A	\$ 17,600,000	\$ 17,600,000	\$ 1,100,000	\$ 50,631
Series 1991	2003-2016	0.640-1.300 ^A	40,100,000	40,100,000	1,600,000	82,805
Series 1993	2003-2018	0.640-1.230 ^A	16,900,000	16,900,000	1,000,000	20,879
Series 1996	2003-2021	0.600-1.300 ^A	17,740,000	17,740,000	745,000	22,711
Total Subordinate Lien Bonds			\$ 92,340,000	\$ 92,340,000	\$ 4,445,000	\$ 177,026

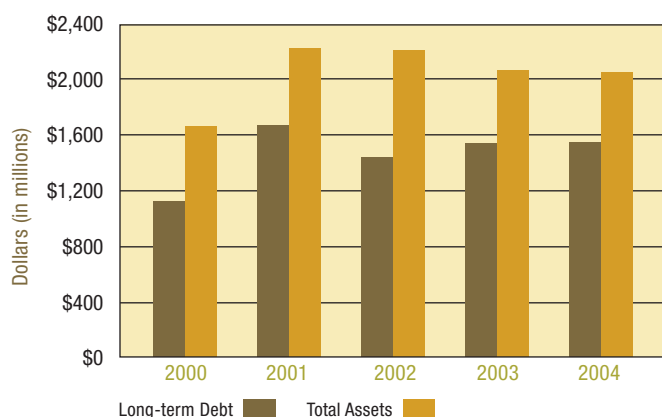
CITY OF SEATTLE

Note Payable	2005	5.000	\$ 5,158,625	\$ 5,158,625	\$ 5,158,625	\$ 128,966
Total Note Payable - City of Seattle			\$ 5,158,625	\$ 5,158,625	\$ 5,158,625	\$ 128,966
Total			\$ 1,542,404,625	\$ 1,542,404,625	\$ 69,754,625	\$ 16,226,097

^A Range of adjustable rates in effect during 2004.

(Concluded)

Long-Term Debt and Total Assets



CUSTOMER STATISTICS (Unaudited)

Years ended December 31,	2004	2003	2002	2001	2000
AVERAGE NUMBER OF CUSTOMERS					
Residential	333,560	330,979	327,127	322,707	316,758
Non-residential					
Commercial	36,610	32,380	31,418	30,934	30,839
Industrial	255	260	263	259	276
Governmental ^A	-	1,826	1,824	1,776	1,686
Transportation ^A	74	-	-	-	-
Total	370,499	365,445	360,632	355,676	349,559

KILOWATT HOURS (IN 000'S)

Residential	33%	2,952,664	33%	2,952,615	34%	3,045,768	34%	3,050,900	34%	3,267,710
Non-residential										
Commercial	57%	5,110,406	44%	3,945,058	43%	3,872,749	42%	3,829,360	41%	3,932,043
Out of service area (commercial) ^B	0%	-	0%	-	0%	-	0%	15,956	1%	96,399
Industrial	10%	915,724	13%	1,166,967	13%	1,165,532	14%	1,237,424	14%	1,352,457
Governmental ^A	0%	-	10%	841,304	10%	839,081	10%	858,111	10%	908,283
Transportation ^A	0%	41,731	0%	-	0%	-	0%	-	0%	-
Total	100%	9,020,525	100%	8,905,944	100%	8,923,130	100%	8,991,751	100%	9,556,892

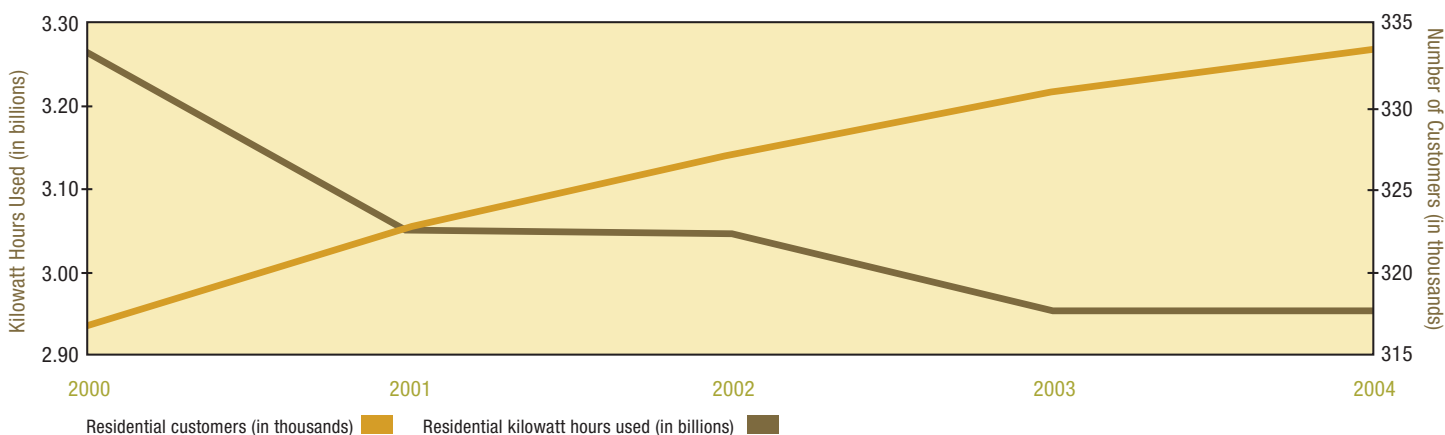
AVERAGE ANNUAL REVENUE PER CUSTOMER (in service area)

Residential	\$	598	\$	602	\$	643	\$	582	\$	476
Non-residential										
Commercial	\$	8,706	\$	7,512	\$	7,638	\$	6,662	\$	4,932
Industrial	\$	219,393	\$	223,177	\$	234,189	\$	243,410	\$	171,125
Governmental ^A	\$	-	\$	28,247	\$	27,772	\$	24,751	\$	19,920
Transportation ^A	\$	36,340	\$	-	\$	-	\$	-	\$	-

^A Data presented to conform with national statistics as compiled by the Energy Information Administration effective 2003.

^B Sales to a commercial customer in California terminated March 31, 2001.

Residential Consumption



CUSTOMER STATISTICS (Unaudited)

Years ended December 31,		2004	2003	2002	2001	2000
AVERAGE ANNUAL CONSUMPTION						
PER CUSTOMER (kWhs) ^A						
Residential	- Seattle	8,852	8,921	9,311	9,454	10,316
	- National	n/a	10,876	10,880	10,520	10,674
Non-residential						
Commercial	- Seattle	139,590	121,836	123,265	124,307	130,628
	- National	n/a	72,114	73,065	72,902	73,540
Industrial	- Seattle	3,591,075	4,488,335	4,431,681	4,777,699	4,900,207
	- National	n/a	1,400,473	1,633,020	1,678,777	2,021,139
Governmental ^B	- Seattle	n/a	460,736	460,022	483,171	538,721
	- National	n/a	n/a	n/a	n/a	n/a
Transportation ^B	- Seattle	563,932	n/a	n/a	n/a	n/a
	- National	n/a	5,463,700	n/a	n/a	n/a

AVERAGE RATE PER KILOWATT

HOURLY (CENTS) ^A

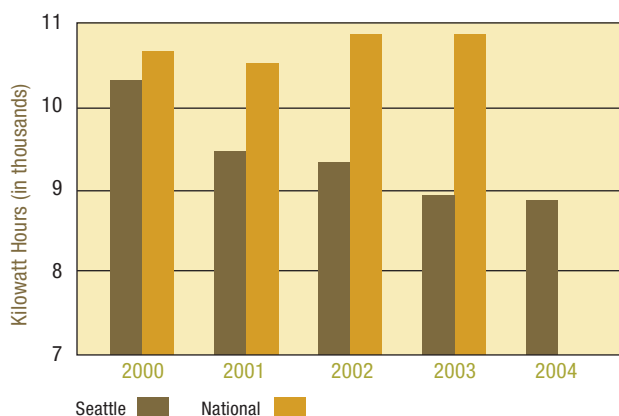
Residential	- Seattle	6.75	6.75	6.90	6.16	4.61
	- National	8.94	8.70	8.46	8.62	8.24
Non-residential						
Commercial	- Seattle	6.24	6.17	6.20	5.36	3.78
	- National	8.17	7.98	7.86	7.93	7.43
Industrial	- Seattle	6.11	4.97	5.28	5.09	3.49
	- National	5.11	5.13	4.88	5.04	4.64
Governmental ^B	- Seattle	n/a	6.13	6.04	5.12	3.70
	- National	n/a	n/a	6.73	7.03	6.56
Transportation ^B	- Seattle	6.44	n/a	n/a	n/a	n/a
	- National	6.48	7.58	n/a	n/a	n/a
All Sectors	- Seattle	6.39	6.20	6.30	5.57	4.01
	- National	7.57	7.42	7.21	7.32	6.81

^A Source of national data: Department of Energy (2004 average annual consumption data is not available; 2004 average rate data preliminary; 2003-2000 revised).

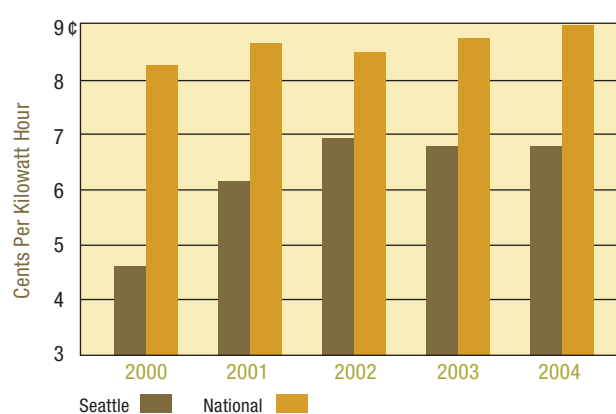
^B Data presented to conform with national statistics as compiled by the Energy Information Administration effective 2003.

NOTE: The most recent rate adjustment was effective April 1, 2004. Rates are set by the Seattle City Council. Notice of public hearings on future rate actions may be obtained on request to The Office of the City Clerk, City Hall, 600-4th Avenue, Floor Three, Seattle, WA 98104. Additional information about public hearings can be found on the Web at http://www.cityofseattle.net/council/hearings_forums.htm. Additional information about Council meetings can be found on the Web at <http://www.seattle.gov/council/meetings.htm>.

Average Annual Residential Consumption



Average Residential Rates



POWER (Unaudited)

Years ended December 31,	2004	2003	2002	2001	2000
POWER COSTS					
Hydraulic generation ^A	\$ 31,565,553	\$ 31,035,885	\$ 28,983,385	\$ 27,425,917	\$ 28,288,083
Steam generation ^{A,B}	-	-	-	-	7,521,097
Long-term purchased power ^C	229,416,359	240,505,211	222,943,642	151,213,357	79,304,610
Wholesale power purchases ^{D,I}	49,830,186	38,121,479	14,306,336	518,781,800	212,402,254
Power costs amortized (deferred) ^E	100,000,000	100,000,000	100,000,000	(300,000,000)	-
Owned transmission ^A	8,390,826	7,358,577	7,171,946	6,768,055	5,775,106
Wheeling expenses	30,946,681	30,102,277	31,065,472	21,906,286	18,431,914
Other power expenses	6,958,618	7,250,818	6,282,466	16,143,942	5,504,322
Total power costs	457,108,223	454,374,247	410,753,247	442,239,357	357,227,386
Less short-term wholesale power sales ^D	(163,264,753)	(137,650,966)	(102,082,572)	(73,899,346)	(99,168,112)
Less other power-related revenues ^F	(20,027,768)	(34,082,244)	(20,385,528)	(44,303,333)	(11,101,230)
Net power costs ^H	\$ 273,815,702	\$ 282,641,037	\$ 288,285,147	\$ 324,036,678	\$ 246,958,044
POWER STATISTICS (MWh)					
Hydraulic generation ^D	6,019,707	6,098,753	6,891,659	3,941,388	6,405,929
Steam generation ^B	-	-	-	-	277,103
Long-term purchased power ^C	7,065,646	6,985,518	6,519,770	4,307,958	3,418,245
Wholesale power purchases ^D	2,386,232	1,210,699	898,613	2,411,210	2,459,825
Wholesale power sales ^D	(5,277,361)	(4,262,041)	(4,647,945)	(468,827)	(2,230,670)
Other ^G	(1,173,699)	(1,126,985)	(738,967)	(1,199,978)	(773,540)
Total power delivered to retail customers	9,020,525	8,905,944	8,923,130	8,991,751	9,556,892
Net power cost per MWh delivered ^H	\$ 30.35	\$ 31.74	\$ 32.31	\$ 36.04	\$ 25.84

^A Including depreciation.

^B The Centralia Steam Plant was sold in May 2000.

^C Long-term purchased power includes energy received under seasonal exchange contracts, valued at the blended weighted average cost of power excluding depreciation and transmission.

^D The level of generation (and consequently the amount of power purchased and sold on the wholesale market) can fluctuate widely from year to year depending upon water conditions in the Northwest region. For the past five years, the Northwest has experienced lower than average water conditions with 2001 considered a severe drought year.

^E Wholesale power purchase costs in the amount of \$300,000,000 incurred in 2001 were deferred to years 2002, 2003 and 2004.

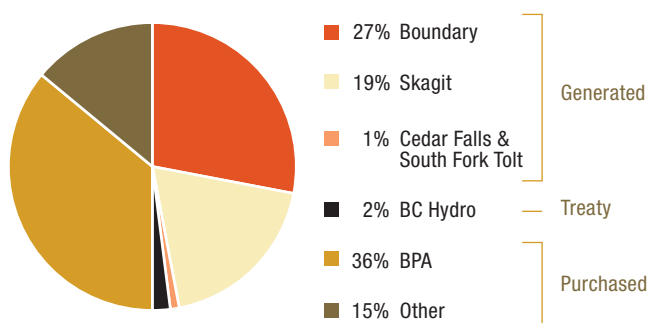
^F Other power-related revenues include energy delivered under seasonal exchange contracts, valued at the blended weighted average cost of power excluding depreciation and transmission.

^G "Other" includes self-consumed energy, system losses, seasonal exchange power delivered, and miscellaneous power transactions.

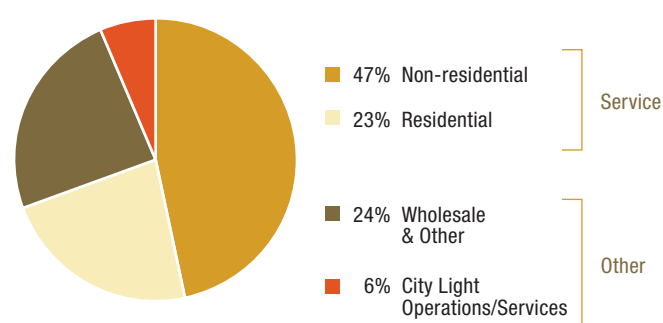
^H If power costs had not been deferred in 2001, the net power cost per MWh delivered would have been \$19.27 in 2004, \$20.51 in 2003, \$21.10 in 2002, and \$69.41 in 2001.

^I Effective in 2003, breakout purchases are excluded from wholesale power purchases and are reported on a net basis in wholesale power sales due to the implementation of EITF-0311. Amounts for years prior to 2002 have not been reclassified.

Sources of Power (in percent of MWh)



Uses of Power (in percent of MWh)



CHANGES IN OWNED TOTAL GENERATING INSTALLED CAPABILITY (Unaudited)

Year	Plant	KW Added	PeakingCapability
			Total KW
1904-09	Cedar Falls Hydro Units 1, 2, 3 & 4	10,400	10,400
1912	Lake Union Hydro Unit 10	1,500	11,900
1914-21	Lake Union Steam Units 11, 12 & 13	40,000	51,900
1921	Newhalem Hydro Unit 20	2,300	54,200
1921	Cedar Falls Hydro Unit 5	15,000	69,200
1924-29	Gorge Hydro Units 21, 22 & 23	60,000	129,200
1929	Cedar Falls Hydro Unit 6	15,000	144,200
1932	Cedar Falls Hydro Units 1, 2, 3 & 4	(10,400) ^A	133,800
1932	Lake Union Hydro Unit 10	(1,500) ^A	132,300
1936-37	Diablo Hydro Units 31, 32, 35 & 36	132,000	264,300
1951	Georgetown Steam Units 1, 2 & 3	21,000	285,300
1951	Gorge Hydro Unit 24	48,000	333,300
1952-56	Ross Hydro Units 41, 42, 43 & 44	450,000	783,300
1958	Diablo Plant Modernization	27,000	810,300
1961	Gorge Hydro, High Dam	67,000	877,300
1967	Georgetown Plant, performance test gain	2,000	879,300
1967	Boundary Hydro Units 51, 52, 53 & 54	652,000	1,531,300
1972	Centralia Units 1 & 2	102,400	1,633,700
1980	Georgetown Steam Units 1, 2, & 3	(23,000) ^A	1,610,700
1986	Boundary Hydro Units 55 & 56	399,000	2,009,700
1987	Lake Union Steam Units 11, 12 & 13	(40,000) ^A	1,969,700
1989-92	Gorge Units 21, 22, & 23, new runners	4,600	1,974,300
1993	Centralia Transmission Upgrade	5,000	1,979,300
1995	South Fork Tolt	16,800	1,996,100
2000	Centralia Units 1 & 2	(107,400) ^B	1,888,700

^A Retirement of units (decrease in total capability).

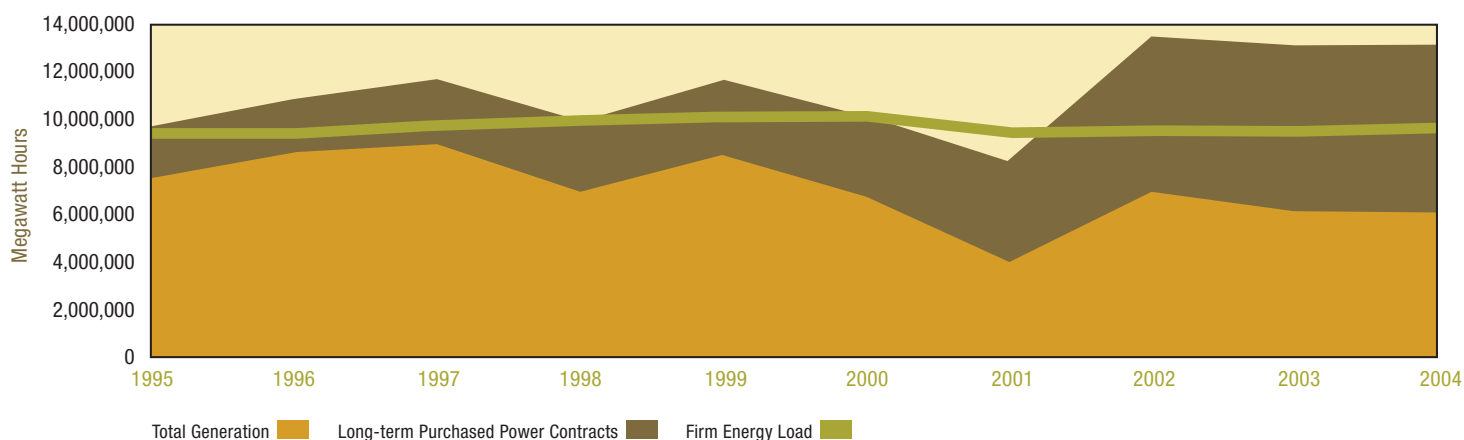
^B The Centralia Steam Plant was sold in May 2000.

SYSTEM REQUIREMENTS (Unaudited)

Year	Kilowatts	
	Average Load	Peak Load ^C
1950	154,030	312,000
1955	381,517	733,000
1960	512,787	889,000
1965	635,275	1,138,000
1970	806,813	1,383,000
1975	848,805	1,429,387
1980	963,686	1,771,550
1985	1,025,898	1,806,341
1990	1,088,077	2,059,566
1991	1,065,987	1,815,164
1992	1,048,055	1,743,975
1993	1,082,616	1,875,287
1994	1,074,852	1,819,323
1995	1,072,692	1,748,657
1996	1,110,133	1,950,667
1997	1,111,035	1,816,152
1998	1,120,178	1,928,854
1999	1,142,382	1,729,933
2000	1,142,383	1,769,440
2001	1,082,068	1,661,842
2002	1,087,519	1,689,666
2003	1,087,901	1,645,998
2004	1,088,448	1,798,926

^C One-hour peak.

Total Generation and Long-Term Purchased Power Contracts vs. Firm Load

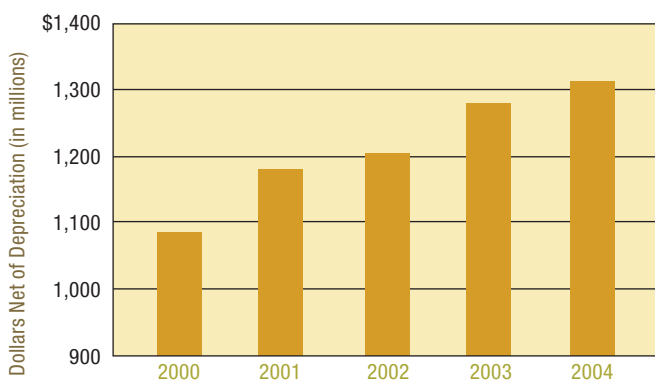


UTILITY PLANT, AT ORIGINAL COST (Unaudited)

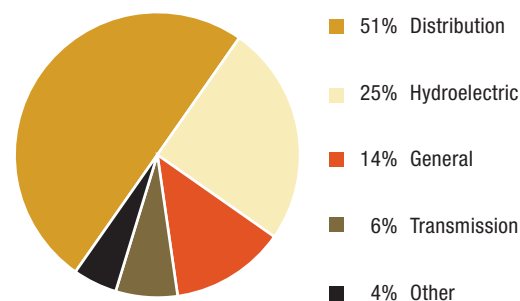
Years ended December 31,	2004	2003	2002	2001	2000
Hydroelectric plant ^A	\$ 602,003,111	\$ 581,316,129	\$ 548,545,811	\$ 542,541,330	\$ 531,705,122
Transmission plant ^A	149,905,533	149,004,899	142,863,829	140,352,499	135,787,595
Distribution plant ^A	1,212,358,103	1,151,824,817	1,075,113,770	1,022,638,123	953,429,070
General plant ^A	325,885,571	310,305,883	298,815,388	280,149,800	218,149,068
Total electric plant in service	2,290,152,318	2,192,451,728	2,065,338,798	1,985,681,752	1,839,070,855
Accumulated depreciation	(980,740,177)	(914,978,513)	(862,964,940)	(808,183,648)	(756,498,166)
Total plant in service, net of depreciation	1,309,412,141	1,277,473,215	1,202,373,858	1,177,498,104	1,082,572,689
Nonoperating properties, net of depreciation	13,112,083	11,860,650	7,703,571	7,216,228	6,613,263
Utility plant, net of depreciation	1,322,524,224	1,289,333,865	1,210,077,429	1,184,714,332	1,089,185,952
Construction work-in-progress	85,659,390	101,523,497	135,358,152	115,321,307	152,981,465
Net utility plant	\$ 1,408,183,614	\$ 1,390,857,362	\$ 1,345,435,582	\$ 1,300,035,639	\$ 1,242,167,417

^A Including land.

Utility Plant in Service, at Original Cost



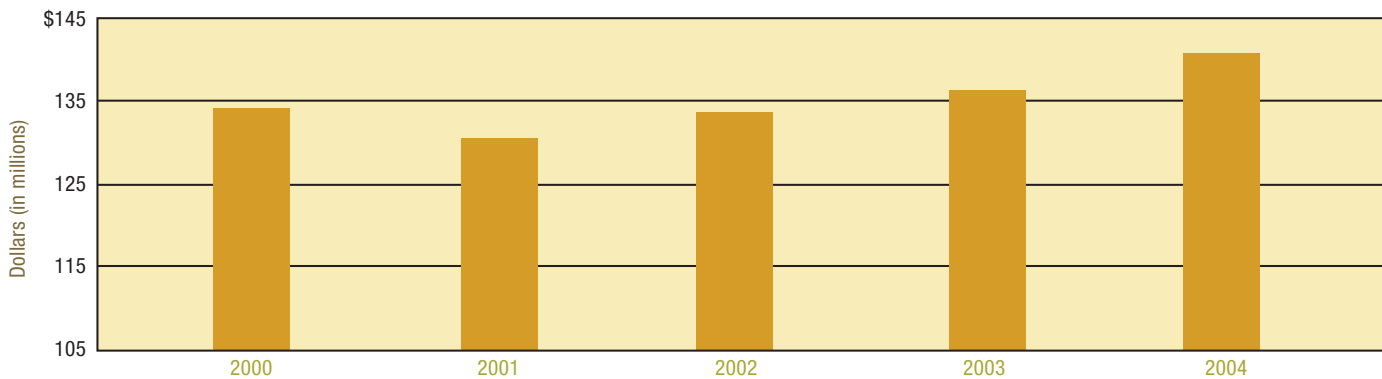
2003 Utility Plant, at Original Cost



PAYROLL AND EMPLOYEE BENEFITS (Unaudited)

Years ended December 31,	2004	2003	2002	2001	2000
Full-time equivalent positions	1,593	1,625	1,618	1,628	1,647
Straight time	\$ 81,140,975	\$ 80,138,335	\$ 77,516,850	\$ 75,801,957	\$ 74,286,122
Overtime	9,972,573	10,625,974	9,744,907	9,431,112	16,287,675
Vacation and other	17,142,100	16,486,348	16,035,490	16,635,444	15,680,918
Total payroll	108,255,648	107,250,657	103,297,247	101,868,513	106,254,715
Employee benefits	32,002,319	28,657,452	29,956,272	28,306,941	27,336,784
Total payroll and employee benefits	\$ 140,257,967	\$ 135,908,109	\$ 133,253,519	\$ 130,175,454	\$ 133,591,499
Percentage of employee benefits (including vacation) to straight time	60.6%	56.3%	59.3%	59.3%	57.9%

Payroll and Employee Benefits



TAXES AND CONTRIBUTIONS TO THE COST OF GOVERNMENT (Unaudited)

Years ended December 31,	2004	2003	2002	2001	2000
Taxes					
City of Seattle occupation tax	\$ 34,488,319	\$ 33,607,729	\$ 33,913,510	\$ 30,648,910	\$ 24,002,685
State public utility and business taxes	21,614,097	23,079,374	22,035,382	19,555,852	15,631,467
Local franchise and other payments ^A	3,077,704	2,706,490	2,079,791	295,474	1,161,177
Contract payments for government services	2,264,550	2,212,731	2,145,206	2,065,424	2,064,726
Total taxes as shown in statement of revenues and expenses	61,444,670	61,606,324	60,173,889	52,565,660	42,860,055
Taxes/licenses charged to accounts other than taxes	9,617,766	10,323,591	9,801,000	8,291,537	9,012,216
Other contributions to the cost of government	2,587,783	4,586,025	4,067,380	3,582,034	4,422,403
Total miscellaneous taxes	12,205,550	14,909,616	13,868,380	11,873,571	13,434,619
Total taxes and contributions	\$ 73,650,219	\$ 76,515,940	\$ 74,042,269	\$ 64,439,231	\$ 56,294,674

Note: Electric rates include all taxes and contributions. The State Public Utility Tax rate for retail electric power sales was 3.873%. The City of Seattle Occupation Utility Tax rate was 6% for in-state retail electric power sales and 5% for out-of-state retail electric power sales.

^A 2001 includes a refund of \$1,224,200 previously paid to the Federal Government as arbitrage rebate payments related to the Municipal Light & Power Revenue Bonds, 1986 and 1988.

PUBLIC PURPOSE EXPENDITURES (Unaudited)

Years ended December 31,	2004	2003	2002	2001	2000
CONSERVATION ^A					
Non-programmatic conservation expenses ^B	\$ 1,319,856	\$ 1,299,856	\$ 1,273,584	\$ 1,806,864	\$ 1,903,001
Conservation programs ^C					
Non-low income	16,730,921	15,536,190	15,733,424	23,184,059	13,840,045
Low income	982,655	1,937,624	2,281,547	1,673,698	1,863,892
External conservation funding					
Bonneville Power Administration					
Non-low income	-	-	(17,898)	(4,273)	-
Low income	-	-	-	-	-
Customer obligation repayments ^D	(672,172)	(1,008,724)	(1,465,272)	(1,595,954)	(1,468,189)
LOW-INCOME ENERGY ASSISTANCE ^E	6,406,537	7,138,348	7,325,405	5,891,234	3,819,285
NON-HYDRO RENEWABLE RESOURCES ^F	18,521,012	12,111,616	7,475,003	381,279	238,015
Net public purpose spending	\$ 43,288,809	\$ 37,014,910	\$ 32,605,793	\$ 31,336,907	\$ 20,196,049
Revenue from electric sales	\$ 579,043,720	\$ 552,232,914	\$ 562,432,218	\$ 503,437,272	\$ 391,578,285
Percent public purpose spending					
Conservation Only	3.2%	3.2%	3.2%	5.0%	4.1%
Renewables & Low-Income Assistance	4.3%	3.5%	2.6%	1.2%	1.0%
	7.5%	6.7%	5.8%	6.2%	5.2%
Energy savings in year (MW hours) ^G	928,117	889,030	852,730	789,977	711,306

Note: Certain prior year amounts have been revised.

^A Non-programmatic conservation expenditures are expensed. Programmatic conservation expenditures are deferred and amortized over a 20-year period in accordance with City Council passed resolutions.

^B Non-programmatic expenditures include program planning, evaluation, data processing, general administration, and support of energy codes that encourage the adoption of more efficient technologies. These expenses are not associated with measured energy savings.

^C Non-low income programmatic conservation includes expenditures for program measures, customer incentives, field staff salaries, and direct program administration. Low-income programmatic conservation includes the same types of expenditures for the Department's HomeWise and Low-Income Multifamily Programs.

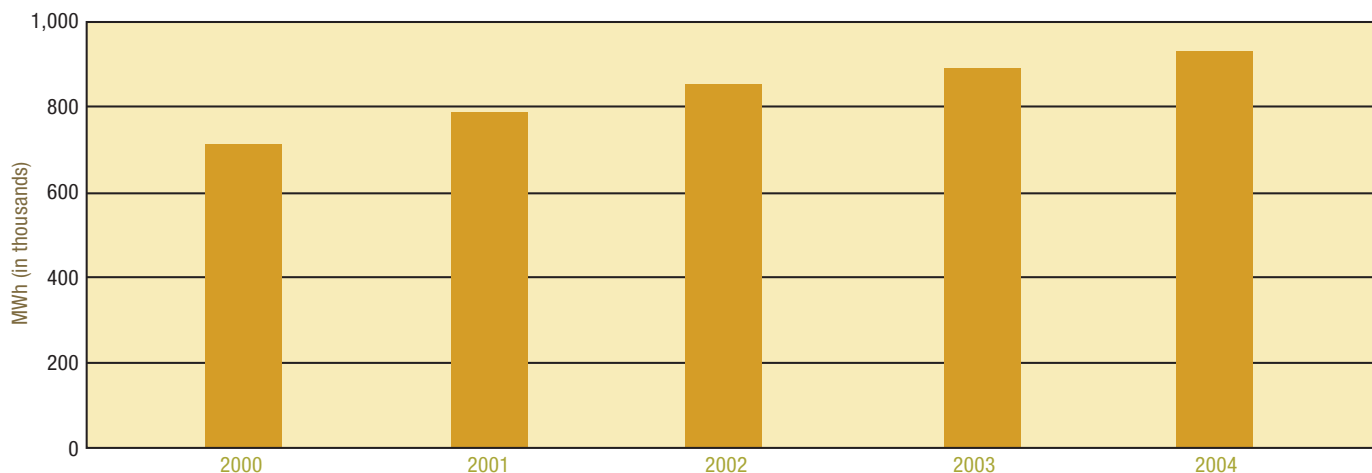
^D Customer obligations repaid in each year include payments on outstanding five-year or ten-year loans, plus discounted repayments in the first year after project completion.

^E Low-income assistance includes rate discounts and other programs that provide assistance to low income customers.

^F Non-hydro renewable resources include cogeneration from the West Point Sewage Treatment plant and power generated from the Stateline Wind Project. Both of these resources are funded from current revenues. In 2004, the Department purchased from the West Point plant approximately 6,027 MWh of energy generated by three reciprocating engines using methane gas from the treatment plant. Total electrical output was purchased under a power purchase contract executed with Metro in 1983, which expired in September 2003, and was renewed through June 2004. The Department purchased from the Stateline Wind Project: 140,850 MWh in 2002; 220,317 MWh in 2003; and 360,206 in 2004.

^G Electricity savings in each year are from cumulative conservation program participants, for completed projects with unexpired measure lifetimes.

Energy Saved Through Conservation



SUSTAINABILITY

This annual report is printed on process chlorine-free 100% post-consumer recycled fiber. The paper was manufactured using non-polluting wind-generated energy. This paper is certified by Green Seal, and by SmartWood for FSC standards which promote environmentally appropriate, socially beneficial and economically viable management of the world's forests.



Savings derived from using post-consumer recycled fiber in lieu of virgin fiber:

17.85 trees not cut down

804.72 lbs. solid waste not generated

51.56 lbs. waterborne waste not created

1,572.71 lbs. atmospheric emissions eliminated

7,584.78 gallons water/wastewater flow saved

10,278,397.73 BTUs energy not consumed



Savings derived from choosing a paper created from windpower:

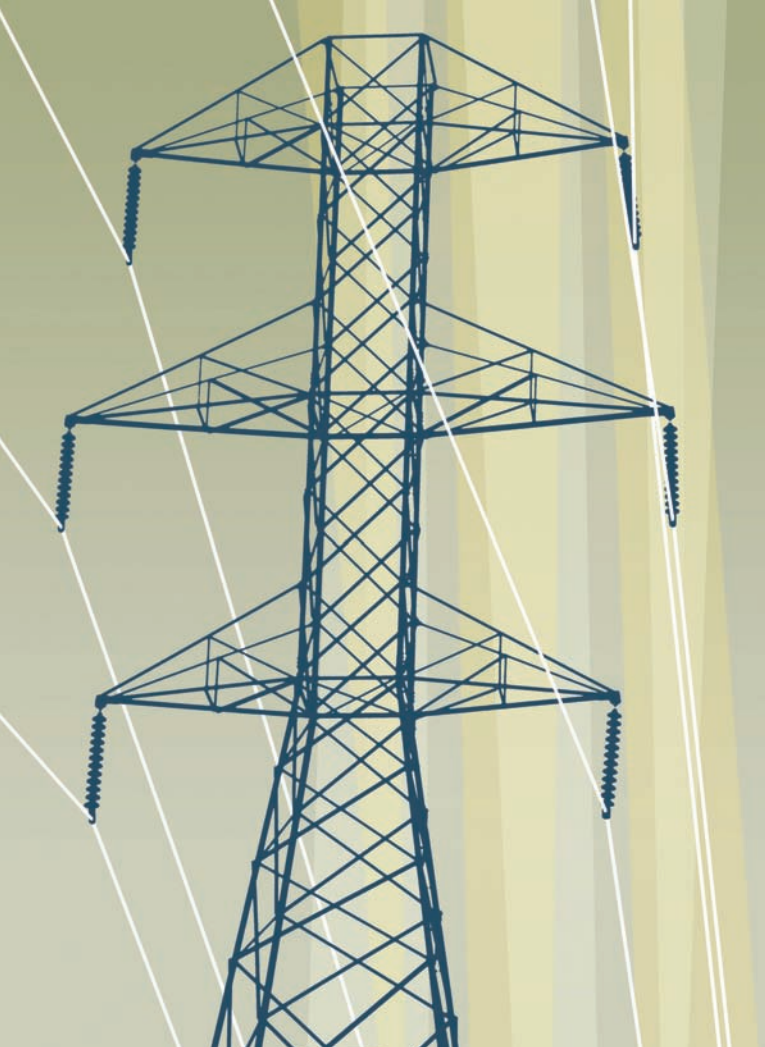
222.28 lbs. air emissions (CO₂, SO₂ and NO_x) not generated

This amount of wind power is equivalent to:

826.59 cubic feet natural gas

15.05 trees being planting

248 miles traveling in an average automobile



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